PNB

Office of the Corporate Secretary
Direct Line: 536-0540
Trunk Lines: 891-6040 to 70
Local: 4106

April 22, 2016

PHILIPPINE DEALING & EXCHANGE CORPORATION
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

Attention: **Ms. Vina Vanessa S. Salonga**
Head - Issuer Compliance and Disclosure Department

Dear Ms. Salonga:

We are pleased to furnish the Philippine Dealing and Exchange Corporation (PDEx) a copy of our amended disclosure to the Philippine Stock Exchange on the Definitive Information Statement of the Philippine National Bank relative to its holding of Annual Stockholders' Meeting on May 31, 2016.

We trust you will take note accordingly. Thank you.

Very truly yours,

MAILA KATRINA Y. ILARDE
Corporate Secretary

CR03028-2016

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   Preliminary Information Statement

   Definitive Information Statement

2. Name of Registrant as specified in its charter

   Philippine National Bank

3. Province, country or other jurisdiction of incorporation or organization

   Philippines

4. SEC Identification Number

   ASO96-005555

5. BIR Tax Identification Code

   000-188-209-000

6. Address of principal office

   PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila

   Postal Code

   1300

7. Registrant's telephone number, including area code

   (632) 526-3131 to 70/(632) 891-6040 to 70

8. Date, time and place of the meeting of security holders

   May 31, 2016, 8:00 a.m., Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, City of Manila

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   May 3, 2016

10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor

    Not Applicable

    Address and Telephone No.

    Not Applicable

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

(information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	1,249,139,678

13. Are any or all of registrant's 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 Shares

PNB

Philippine National Bank

PNB

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting
References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	May 31, 2016
Type (Annual or Special)	Annual
Time	8:00 a.m.
Venue	Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, City of Manila
Record Date	May 2, 2016

Inclusive Dates of Closing of Stock Transfer Books

Start Date	Apr 26, 2016
End date	May 2, 2016

Other Relevant Information

1. Amended the Inclusive Dates of Closing of Stock Transfer Books; and
2. Amended the attached Secretary's Certificate certifying that none of the incumbent directors/nominees to the Board of Directors of the Bank are appointed government officials.

Filed on behalf by:

Name	Maila Katrina Ilarde
Designation	Corporate Secretary

PNB

Office of the Corporate Secretary
Direct Line: 536-0540
Trunk Lines: 891-6040 to 70
Local: 4106

April 19, 2016

DIRECTOR VICENTE GRACIANO P. FELIZMENIO, JR.
Markets and Securities Regulation Department
Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

Dear Director Felizmenio, Jr.:

In connection with the forthcoming Annual Stockholders' Meeting ("ASM") of the Philippine National Bank (the "Bank") to be held on May 31, 2016, we undertake to upload to the Bank's website the Interim Financial Statements for the 1st Quarter of 2016 (SEC Form 17-Q) at least five (5) business days before the ASM, and to distribute the said interim financial statements to the stockholders at the ASM. The Bank shall likewise publish in a newspaper of general circulation a notice to its stockholders of the aforementioned undertaking.

Very truly yours,

MAILA KATRINA Y. ILARDE
Corporate Secretary

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

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

PNB

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   [ ] Preliminary Information Statement
   [x] Definitive Information Statement

2.	Name of Registrant as specified in its charter	:	PHILIPPINE NATIONAL BANK
3.	Province, country or other jurisdiction of incorporation or organization	:	Metro Manila, Philippines
4.	SEC Identification Number	:	AS096-005555
5.	BIR Tax Identification Number	:	000-188-209-000
6.	Address of principal office	:	PNB Financial Center President Diosdado Macapagal Blvd. Pasay City, Metro Manila, 1300
7.	Registrant's telephone number, including area code	:	(632) 834-0780 (Office of the Corporate Secretary)
8.	Date of meeting	:	May 31, 2016
	Time of meeting	:	8:00 a.m.
	Place of meeting	:	Grand Ballroom, Upper Lobby Century Park Hotel 599 Pablo Ocampo, Sr. St. Malate, City of Manila
9.	Approximate date on which the Information Statement is first to be sent or given to security holders	:	May 3, 2016

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate Registrant):

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

11. Are any or all Registrant's securities listed in a Stock Exchange?

Yes [√] No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein : **PHILIPPINE STOCK EXCHANGE/ COMMON STOCK**

[1/] *This includes the 423,962,500 common shares issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB and ABC as approved by the Securities and Exchange Commission (SEC) on January 17, 2013. The shares are the subject of the Registration Statement approved by the SEC on July 29, 2015 and is pending listing with the Philippine Stock Exchange. This also includes the 162,931,262 common shares issued relative to the Bank's Stock Rights Offering in 2014.*

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
APR 20 2016
MARKET REGULATION DEPT.
BY: TIME: 2:44

PNB

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the Annual Meeting of Stockholders of the Philippine National Bank (the "Bank") will be held on May 31, 2016 at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, City of Manila.

The Agenda for the Meeting is as follows:

1. Call to Order
2. Secretary's Proof of Notice and Quorum
3. Approval of the Minutes of the 2015 Annual Stockholders' Meeting held on May 26, 2015
4. Report of the President on the Results of Operations for the Year 2015
5. Approval of the 2015 Annual Report
6. Amendment of Section 4.2, Article IV of the Amended By-Laws to change the date of the Annual Stockholders' Meeting from the last Tuesday of May to the last Tuesday of April of each year
7. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2015 Annual Stockholders' Meeting
8. Election of Directors
9. Appointment of External Auditor
10. Other Matters
11. Adjournment

The details and rationale of each item in the Agenda are explained briefly in the attached "Annex A".

Minutes of the 2015 Annual Stockholders' Meeting, as well as the resolutions of the Board of Directors from the last stockholders' meeting held on May 26, 2015 up to the present, are available for examination during office hours at the Office of the Corporate Secretary located at the 9th Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila.

Only stockholders of record as of May 2, 2016 will be entitled to notice of and to vote at the meeting. Registration will begin at 6:00 a.m. on May 31, 2016.

If you cannot personally attend the meeting, you may designate your authorized representative by submitting a PROXY of your choice not later than 5:00 p.m. on May 26, 2016 to the Office of the Corporate Secretary at PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila. All proxies received will be validated by the Bank's Corporate Secretary on May 27, 2016 at 2:30 p.m. at the office of the Stock Transfer Agent, PNB Trust Banking Group, 3rd Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila. A sample proxy is attached for your reference.

Pasay City, April 20, 2016.

MAILA KATRINA Y. ILARDE
Corporate Secretary

SEC FORM 20-IS

DEFINITIVE INFORMATION STATEMENT
PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

A. GENERAL INFORMATION

Item 1. DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

(a) The Annual Stockholdersô Meeting of the Philippine National Bank (hereafter PNB or the ñBankò) will be held on May 31, 2016 at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, Manila, Philippines. The Bankǿs complete address is PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila, Philippines.

(b) The Definitive Information Statement, together with the Notice of Meeting, will be sent to qualified stockholders not later than May 3, 2016.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT BEING REQUESTED TO SEND US A PROXY AT THIS TIME.

Item 2. DISSENTER'S RIGHT OF APPRAISAL

(a) Title X ï Section 81 of the Corporation Code of the Philippines allows a stockholder to exercise his right to dissent and demand payment of the fair value of his shares in certain instances, to wit: (1) in case an amendment to the Articles of Incorporation will change or restrict the rights of such stockholder or otherwise extend or shorten the term of the company; (2) in case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the companyǿs properties; or (3) in cases of merger or consolidation**.**

Under Section 42 of the Corporation Code, a stockholder is likewise given an appraisal right in cases where a corporation decides to invest its funds in another corporation or business. The stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.

(b) None of the proposed corporate actions to be submitted to the stockholders for approval constitutes a ground for the exercise of the stockholderǿs appraisal right.

Item 3. INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

(a) No person who has been a director of the Bank from the beginning of fiscal year 2015, or any associate of the foregoing, has any interest in any matter to be acted upon in the meeting other than election to office.

(b) The Bank has not received any information from a director that he/she intends to oppose any matter to be acted upon in the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

(a) The total number of common shares outstanding as of March 31, 2016 is 1,249,139,678[2/] with a par value of ₱40.00 per share. Total foreign equity ownership is 117,178,153 common shares or 9.38%.

Pursuant to Article IV, Section 4.9 of the Bankôs By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock in his name in the books of the Bank as of May 2, 2016 (the ñRecord Dateò).

With respect to the election of directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit, provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(b) Stockholders of record of the Bank as of the Record Date shall be entitled to notice of, and to vote at, the Annual Stockholdersô Meeting.

(c) 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 March 31, 2016)*

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 Corp. - 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 ï 16,967,394 shares Shareholder		Filipino		
Caravan Holdings Corporation - Marikina City - 67,148,224 shares Shareholder		Filipino		

[2/]. *This includes the 423,962,500 common shares issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB and ABC as approved by the SEC on January 17, 2013. The Shares are the subject of the Registration Statement approved by the SEC on July 29, 2015 and will be listed with the Philippine Stock Exchange. This also includes the 162,931,262 common shares issued relative to the Bank's Stock Rights Offering in 2014.*

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
Donfar Management Limited - Makati City - 25,173,588 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Dunmore Development Corporation (X-496) - Pasig City - 12,395,850 shares Shareholder		Filipino		
Dynaworld Holdings, Incorporated - Pasig City - 9,323,108 shares Shareholder		Filipino		
Fast Return Enterprises, Limited - Makati City - 14,865,453 shares Shareholder		Filipino		
Fil-Care Holdings, Incorporated - Quezon City - 20,836,937 shares Shareholder		Filipino		
Fragile Touch Investment Limited - 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		

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
Kentwood Development Corp. - Quezon City - 14,112,105 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Key Landmark Investments, Limited - British Virgin Islands - 109,115,864 shares Shareholder		Filipino		
La Vida Development Corporation - Quezon City - 16,052,705 shares Shareholder		Filipino		
Leadway Holdings, Incorporated - Quezon City - 53,470,262 shares Shareholder		Filipino		
Mavelstone International Limited - Makati City - 24,213,463 shares Shareholder		Filipino		
Merit Holdings and Equities Corp. - 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		

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
Profound Holdings, Inc. - Marikina City - 14,935,099 shares Shareholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Purple Crystal Holdings, Inc. - Manila 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 Corp. - Pasig City - 67,148,224 shares Shareholder		Filipino		
Total Holdings Corp. - Quezon City - 13,095,263 shares Shareholder		Filipino		
True Success Profits, Limited - British Virgin Islands - 67,148,224 shares Shareholder		Filipino		
Uttermost Success, Limited - Makati City ï 24,752,272 shares Shareholder		Filipino		

The right to vote or direct the voting of the Bankôs shares held by the foregoing stockholders is lodged in their respective Boards of Directors. The Bank expects to receive the proxy to vote the shares held by the foregoing stockholders on or before May 26, 2016.

(2) Security Ownership of Management (Individual Directors and Executive Officers as of March 31, 2016)

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Florencia G. Tarriela Chairperson Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001601
Felix Enrico R. Alfiler Vice Chairman Independent Director	10,215 shares ₱408,600.00 (R)	Filipino	0.0008177628
Florido P. Casuela Director	133 shares ₱5,320.00 (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 ₱4,000.00 (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

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
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
Subtotal	14,901,905 shares ₱596,076,200.00 (R)		1.1929734731
All Executive Officers & Directors as a Group	14,924,599 shares ₱596,983,960.00 (R)		1.1947902435

(3) Voting Trust Holders of 5% or More

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

(4) Changes in Control

There has been no change in control of the Bank in the fiscal year 2015.

Item 5. DIRECTORS AND EXECUTIVE OFFICERS

(a) <u>Directors and Executive Officers</u>

On May 26, 2015, the Bank reported to the Bangko Sentral ng Pilipinas (BSP) the election of fifteen (15) members of the Board of Directors at the 2015 Annual Stockholdersô Meeting. Ms. Florencia G. Tarriela, Mr. Felix Enrico R. Alfiler, Mr. Federico C. Pascual, Mr. Cecilio K. Pedro and Mr. Deogracias N. Vistan were re-elected as independent directors.

As defined in Section 38 of the Securities Regulation Code (SRC), an independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.

The re-election of the following directors of PNB for the year 2015-2016 was exempted from confirmation by the Monetary Board (MB) of the BSP as provided in Subsection X141.4 of the Manual of Regulations for Banks (MORB) and pursuant to BSP Circular No. 758 dated May 11, 2012:

Florencia G. Tarriela	Cecilio K. Pedro
Felix Enrico R. Alfiler	Washington Z. Sycip
Florido P. Casuela	Harry C. Tan
Leonilo G. Coronel	Lucio C. Tan
Reynaldo A. Maclang	Lucio K. Tan, Jr.
Estelito P. Mendoza	Michael G. Tan
Federico C. Pascual	Deogracias N. Vistan

The election of Mr. Nelson as Director of the Bank was confirmed by the MB on December 10, 2015 under Resolution No. 2035.

During its special meeting held on April 14, 2016, the Bankôs Corporate Governance Committee (acting as the Bankôs Nomination Committee) considered the shortlist of the candidates nominated to sit as members of the Board of Directors according to the prescribed qualifications and disqualifications. A total of fifteen (15) nominees were considered. In compliance with Subsection X141.2 of the MORB of the BSP on the qualifications of a director and in accordance with the procedures for the nomination and election of independent directors set forth in Rule 38 of the SRC which was incorporated in the PNB By-Laws, the Bankôs Corporate Governance Committee approved the nomination of the following individuals for election to the Board of Directors for the year 2016 ï 2017:

1. Florencia G. Tarriela
2. Felix Enrico R. Alfiler
3. Florido P. Casuela
4. Edgar A. Cua
5. Leonilo G. Coronel
6. Reynaldo A. Maclang
7. Estelito P. Mendoza
8. Christopher J. Nelson
9. Federico C. Pascual
10. Cecilio K. Pedro
11. Washington Z. Sycip
12. Carmen K. Tan
13. Lucio C. Tan
14. Lucio K. Tan, Jr.
15. Michael G. Tan

(Please refer to pages 11 to 26 of this Information Statement for the profiles of the nominees and incumbent directors.)

Mr. Felix Enrico R. Alfiler, Mr. Edgar A. Cua, Mr. Federico C. Pascual, Mr. Cecilio K. Pedro, and Ms. Florencia G. Tarriela were nominated as independent directors. After due evaluation by the Corporate Governance Committee, it certified that said nominees are duly qualified in accordance with Subsection X141.2 of the MORB and Rule 38 of the SRC. All of the nominees for independent director were nominated by Mr. Reynaldo A. Maclang to comply with the requirement on independent directors. Said nominees are not related to Mr. Maclang.

All nominations are compliant with SEC Memorandum Circular No. 9, Series of 2011, on the term limits of independent directors. The Certificate of Qualification of the independent directors pursuant to the SEC Notice to All Independent Directors on the Certificate of Qualification dated October 20, 2006 will be submitted by the Bank within thirty (30) days after the election of the independent directors.

Profile of Directors and Executive Officers together with their Business Experience covering at least the Past Five (5) Years

Name	**FLORENCIA G. TARRIELA**
Age	69
Nationality	Filipino
Education	* Bachelor of Science in Business Administration degree, Major in Economics, University of the Philippines * Masters in Economics degree from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination
Current Position in the Bank	Chairman of the Board/Independent Director
Date of First Appointment	* May 29, 2001 (as Director) * May 24, 2005 (as Chairman of the Board) * May 30, 2006 (as Independent Director)
Directorship in Other Listed Companies	Independent Director of LT Group, Inc.
Other Current Positions	* Independent Director of PNB Capital and Investment Corporation, PNB Life Insurance, Inc., PNB International Investments Corporation, and LT Group, Inc. * Columnist for ñBusiness Optionsò of the Manila Bulletin and ñFINEX Folioò of Business World * Director/Vice President of Tarriela Management Company and Director/Vice President/ Assistant Treasurer of Gozon Development Corporation * Life Sustaining Member of the Bankers Institute of the Philippines and FINEX, where she is also a Director * Trustee of TSPI Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc. * Co-author of several inspirational books - ñCoincidence or Miracle? Books I, II, III (ñBlessings in Disguiseò), IV (ñAgainst All Oddsò), and V (ñBeyond All Barriersò), and gardening books - ñOops-Donœt Throw Those Weeds Away!ò and ñThe Secret is in the Soilò * Environmentalist and practices natural ways of gardening
Other Previous Positions	* Undersecretary of Finance * Alternate Board Member of the Monetary Board of the Bangko Sentral ng Pilipinas, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation * Deputy Country Head, Managing Partner and the first Filipina Vice President of Citibank N. A.
Awards/Citations	* 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement

Name	**FELIX ENRICO R. ALFILER**
Age	66
Nationality	Filipino
Education	Bachelor of Science and Masters in Statistics from the University of the Philippines
Current Position in the Bank	Vice Chairman/Independent Director
Date of First Appointment	January 1, 2012
Directorship in Other Listed Companies	None
Other Current Positions	* Chairman/Independent Director of PNB RCI Holdings Co., Ltd. * Independent Director of PNB-IBJL Leasing and Finance Corporation, PNB Savings Bank and PNB International Investments Corp.
Other Previous Positions	* Senior Advisor 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 * Senior Advisor to the Executive Director at the International Monetary Fund * Associate Director at the Central Bank * Head of the Technical Group of the CB Open Market Committee * 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 Philippinesô medium- and long-term foreign debts * 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) * Vice President of the Philippine Product Safety and Quality Foundation, Inc. * Convenor for Fair Trade Alliance.

Name	**FLORIDO P. CASUELA**
Age	74
Nationality	Filipino
Education	* Bachelor of Science in Business Administration, Major in Accounting from the University of the Philippines * Masters in Business Administration from the University of the Philippines * Advanced Management Program for Overseas Bankers from the Philadelphia National Bank in conjunction with Wharton School of the University of Pennsylvania
Government Civil Service Eligibilities	Certified Public Accountant, Economist, Commercial Attaché
Current Position in the Bank	Director
Date of First Appointment	May 30, 2006
Directorship in Other Listed Companies	None
Other Current Positions	* Chairman of PNB Securities, Inc. * Director of PNB Savings Bank, PNB International Investments Corporation, PNB RCI Holdings Co., Ltd., PNB Life Insurance, Inc., and Surigao Micro Credit Corporation * Senior Adviser of the Bank of Makati, Inc.
Other Previous Positions	* President of Maybank Philippines, Inc., Land Bank of the Philippines, and Surigao Micro Credit Corporation * Senior Adviser in the Bangko Sentral ng Pilipinas. * 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 * Vice President of Metropolitan Bank & Trust Co. * Special Assistant to the Chairman of the National Power Corporation * Audit Staff of Joaquin Cunanan, CPAs
Awards/Citations	* One of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration * Most Outstanding Surigaonon in the field of Banking and Finance, awarded by the Rotary Club ï Surigao Chapter

Name	**LEONILO G. CORONEL**
Age	69
Nationality	Filipino
Education	* Bachelor of Arts degree, Major in Economics from the Ateneo de Manila University * Advance Management Program of the University of Hawaii
Current Position in the Bank	Director
Date of First Appointment	May 28, 2013
Directorship in Other Listed Companies	Independent Director of Megawide Construction Corporation
Other Current Positions	* Chairman of PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation * Independent Director of DBP-Daiwa Capital Markets Phil. * Director of Software Ventures International
Other Previous Positions	* Executive Director of the Bankers Association of the Philippines and RBB Micro Finance Foundation * Director/Treasurer of Philippine Depository and Trust Corporation * Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Capital Markets Development Council * Managing Director of BAP-Credit Bureau * President of Cebu Bankers Association * Consultant of Land Bank of the Philippines, Arthur Young, U.S. Aid, Bankers Association of the Philippines and Economic Development Corporation * Worked with Citibank, Manila for twenty (20) years, occupying various positions.
Awards/Citations	Fellow of the Australian Institute of Company Directors in 2002

Name	**REYNALDO A. MACLANG**
Age	77
Nationality	Filipino
Education	Bachelor of Laws from the Ateneo de Manila University
Current Position in the Bank	President of the Bank
Date of First Appointment	∗ February 9, 2013 (as Director) ∗ May 27, 2014 (as President)
Directorship in Other Listed Companies	None
Other Current Positions	∗ Chairman of PNB (Europe) Plc. ∗ Director 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. ∗ Director of the Bankers Association of the Philippines, Asian Bankers Association, and Bancnet, Inc., where he is also a Treasurer.
Other Previous Positions	∗ President of Allied Savings Bank from 1986 to 2001 ∗ President of Allied Banking Corporation (ABC) from 2001 to 2009 ∗ Director of ABC, PNB Life Insurance, Inc., PNB Italy SpA, PNB International Investments Corporation, PNB Holdings Corporation, PNB Securities, Inc., PNB Forex, Inc., and Eton Properties Philippines, Inc.

Name	**ESTELITO P. MENDOZA**
Age	86
Nationality	Filipino
Education	* Bachelor of Laws (cum laude) from the University of the Philippines * Master of Laws from the Harvard University
Current Position in the Bank	Director
Date of First Appointment	January 1, 2009
Directorship in Other Listed Companies	Director of San Miguel Corporation and Petron Corporation
Other Current Positions	* Chairman of Prestige Travel, Inc. * Director of Philippine Airlines, Inc. * Practicing lawyer for more than sixty (60) years
Other Previous Positions	* Professorial Lecturer of law at the University of the Philippines * Undersecretary of Justice, Solicitor General and Minister of Justice * Member of the Batasang Pambansa and Provincial Governor of Pampanga * 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.
Awards/Citations	* 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 * Doctor of Humane Letters degree by the Misamis University * Recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns * University of the Philippines Alumni Associationôs 1975 ñProfessional Award in Lawò and 2013 ñLifetime Distinguished Achievement Awardò

Name	**CHRISTOPHER J. NELSON**
Age	56
Nationality	British
Education	* Bachelor of Arts and Masters of Arts in History from Emmanuel College, Cambridge University, U.K., * Diploma in Marketing from the Institute of Marketing, Cranfield, U.K.
Current Position in the Bank	Director
Date of First Appointment	March 21, 2013 (Director) May 27, 2014 (Board Advisor) May 26, 2015 (Director)
Directorship in Other Listed Companies	None
Other Current Positions	* Director of PNB Holdings Corporation. * Chairman of Lux Et Sal Corporation * Director of the Philippine Band of Mercy, the Federation of Philippine Industries, Bellagio 3 Condominium Association, Inc., and Greenlands Community * Member of the Board of Trustees of the American Chamber Foundation Philippines, Inc., and British Chamber of Commerce of the Philippines, where he is also the Chairman * Member of the Society of Fellows of the Institute of Corporate Directors.
Other Previous Positions	* Trustee of Tan Yan Kee Foundation * Director of the American Chamber of Commerce of the Philippines, Inc. * President of Philip Morris Philippines Manufacturing, Inc., a position he held for 10 years * Various management positions with Philip Morris International for 25 years including Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and Horn of Africa

Name	**FEDERICO C. PASCUAL**
Age	73
Nationality	Filipino
Education	* Bachelor of Arts, Ateneo de Manila University * Bachelor of Laws (Member, Law Honors Society), University of the Philippines * Masters of Laws in Columbia University
Current Position in the Bank	Independent Director
Date of First Appointment	May 27, 2014
Directorship in Other Listed Companies	None
Other Current Positions	* Chairman/Independent Director of PNB General Insurers Co., Inc. * Independent Director of PNB International Investments Corporation and PNB Holdings Corporation * President/Director of Tala Properties, Inc. and Woldingham Realty, Inc. * Director of Global Energy Growth System and Apo Reef World Resort * Proprietor of Green Grower Farm * Partner of the University of Nueva Caceres in Bataan.
Other Previous Positions	* President and General Manager of Government Service Insurance System * President and CEO of Allied Banking Corporation * Various positions with PNB for twenty (20) years in various positions, including Acting President, CEO and Vice Chairman * 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 * Treasurer of BAP-Credit Guarantee * 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

Name	**CECILIO K. PEDRO**
Age	62
Nationality	Filipino
Education	* Bachelor of Science in Business Management from the Ateneo de Manila University * Honorary Doctorate of Philosophy in Technological Management from the Technological University of the Philippines
Current Position in the Bank	Independent Director
Date of First Appointment	February 28, 2014
Other Current Positions	* Chief Executive Officer (CEO)/President of Lamoiyan Corporation * Chairman and CEO of Pneumatic Equipment Corporation and Action Container, Inc. * Director of CATS Motors, Manila Doctors Hospital and Philippine Business for Social Progress * Independent Director of PNB Savings Bank * Chairman of the Deaf Evangelistic Alliance Foundation, Inc. * Vice President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc.
Other Previous Positions	* CEO/President of Aluminum Container, Inc. * Director of DBS Philippines, Inc. (formerly Bank of Southeast Asia, Inc.)
Awards/Citations	* Recipient of 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 Negosyoôs Grand MVP Bossing Award * Recognized by the House of Representative for his Exemplary Accomplishment in the Promotion of the Welfare of the Deaf Community on October 16, 2012

Name	**WASHINGTON Z. SYCIP**
Age	94
Nationality	Filipino-American
Education	* Bachelor of Science in Commerce from the University of Sto. Tomas * Masters in Commerce from the University of Sto. Tomas and Columbia University
Current Position in the Bank	Director
Date of First Appointment	December 8, 1999
Directorship in Other Listed Companies	* Chairman of Cityland Development Corporation * Independent Director of Belle Corporation, First Philippine Holdings Corporation * Lopez Holdings Corporation, and Metro Pacific Investments Corporation * Director of LT Group, Inc. and MacroAsia Corporation
Other Current Positions	* Founder of SGV Group * One of the founders and Chairman Emeritus of the Asian Institute of Management * Member of the Board of Overseers of the Graduate School of Business at Columbia University * Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France * Honorary Life Trustee of The Asia Society * Member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world
Other Previous Positions	* President of the International Federation of Accountants * Member of the International Advisory Board of the Council on Foreign Relations * Vice Chairman of the Board of Trustees of The Conference Board * Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange * 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. * Board of Trustees of the Ramon Magsaysay Award Foundation and Eisenhower Exchange Fellowship
Awards/Citations	* 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 * Management Man of the Year given by the Management Association of the Philippines * Officerûs 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 * Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden

Name	**HARRY C. TAN**
Age	70
Nationality	Filipino
Education	Bachelor of Science in Chemical Engineering, Mapua Institute of Technology
Current Position in the Bank	Director
Date of First Appointment	February 9, 2013
Directorship in Other Listed Companies	Director of LT Group, Inc.
Other Current Positions	* Chairman of Bulawan Mining Corporation and PNB Global Remittance and Financial Company (HK) Limited * Director of PNB Management Development Corporation and PNB Savings Bank * Chairman for the Tobacco Board of Fortune Tobacco International Corporation * President of Landcom Realty Corporation and Century Park Hotel * Vice Chairman of Lucky Travel Corporation, Eton Properties Philippines, Inc., Belton Communities, Inc., and Eton City, Inc. * Managing Director/Vice Chairman of The Charter House Inc. * Director of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corporation, Progressive Farms, Inc., Shareholdings Inc., Himmel Industries, Inc., Basic Holdings Corporation, Asian Alcohol Corporation, Pan Asia Securities Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Absolut Distillers, Inc., MacroAsia Corporation, Tanduay Brands International Inc., Allied Bankers Insurance Corp., Allied Banking Corporation (Hong Kong) Limited, PMFTC, Inc., and Allied Commercial Bank
Other Previous Positions	* Director of Allied Banking Corporation * Director of Philippine Airlines * Director of MacroAsia Corporation

Name	**LUCIO C. TAN**
Age	81
Nationality	Filipino
Education	Bachelor of Science in Chemical Engineering degree from Far Eastern University and later from the University of Sto. Tomas Doctor of Philosophy, Major in Commerce, from University of Sto. Tomas
Current Position in the Bank	Director
Date of First Appointment	December 8, 1999
Directorship in Other Listed Companies	∗ Chairman and CEO: LT Group, Inc., PAL Holdings, Inc., and MacroAsia Corporation
Other Current Positions	∗ Chairman and CEO of Philippine Airlines, Inc. ∗ Chairman/President: Tangent Holdings Corporation and Lucky Travel Corporation ∗ Chairman: Eton Properties Philippines, Inc., Asia Brewery, Inc., Tanduay Distillers, Inc., Fortune Tobacco Corporation, PMFTC, Inc., PNB Life Insurance, Inc., Allied Leasing and Finance Corporation, Allied Commercial Bank, PNB Savings Bank, and Allied Banking Corporation (HK) Ltd. ∗ President: Basic Holdings Corporation, Himmel Industries, Inc., and Grandspan Development Corporation ∗ Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. ∗ Founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. ∗ Founded the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President
Other Previous Positions	∗ Chairman: Allied Banking Corporation
Awards/Citations	∗ Various honorary degrees for his outstanding achievements and leadership in the Philippines and other parts of the world

Name	**LUCIO K. TAN, JR.**
Age	49
Nationality	Filipino
Education	* Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics), University of California Davis, U.S.A. * Executive Masters in Business Administration, Hong Kong University of Science and Technology (Business School) and J.L. Kellogg School of Management of Northwestern University, Hong Kong * Courses in Basic and Intermediate Japanese Language, Languages International, Makati and Asia Center for Foreign Languages, Ortigas
Current Position in the Bank	Director
Date of First Appointment	September 28, 2007
Directorship in Other Listed Companies	* Director of MacroAsia Corporation, LT Group, Inc., PAL Holdings, Inc. and Victorias Milling Company
Other Current Positions	* President/Director of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc. * Director of Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB Forex, Inc., PNB Management and Development Corporation, PNB Savings Bank, Allied Leasing and Finance Corporation, PNB Global Remittance and Financial Company (HK) Ltd., and Allied Banking Corporation (HK) Limited * Director of PMFTC, Inc., Philippine Airlines, Inc., Air Philippines Corporation, Allied Bankers Insurance Corporation, Foremost Farms, Inc., Manufacturing Services & Trade Corp., Grandspan Development Corporation, Absolut Distillers, Inc., Asia Brewery, Inc., Eton City, Inc., Asian Alcohol Corporation, Lucky Travel Corporation, Progressive Farms, Inc., Tanduay Brands International, Inc., The Charter House, Incorporated, Himmel Industries, Incorporated * EVP and Director of Fortune Tobacco Corporation
Other Previous Positions	* President and Chief Executive Officer of MacroAsia Corporation * Director of Tanduay Distillers, Inc. * Executive Vice President of Fortune Tobacco Corporation

Name	**MICHAEL G. TAN**
Age	50
Nationality	Filipino
Education	Bachelor of Applied Science in Civil Engineering, Major in Structural Engineering, from the University of British Columbia, Canada
Current Position in the Bank	Director
Date of First Appointment	February 9, 2013
Directorship in Other Listed Companies	* Director and President of LT Group, Inc. * Director of PAL Holdings, Inc. and Victorias Milling Corporation
Other Current Positions	* Chairman of PNB Holdings Corporation and PNB Management and Development Corporation * Director of PNB Forex, Inc., Bulawan Mining Corporation, PNB Savings Bank, Allied Commercial Bank, PNB Global Remittance and Financial Company (HK) Ltd. and Allied Banking Corp. (Hong Kong) Limited * Chief Operating Officer of Asia Brewery, Inc. * Director of the following companies: Philippine Airlines Foundation, Inc., Air Philippines Corp., Philippine Airlines, Inc., Absolut Distillers, Inc., Eton Properties Phils., Inc., Grandway Konstruct, Inc., Shareholdings, Inc., Lucky Travel Corporation, Eton City, Inc., Abacus Distribution Systems Philippines, Inc., PMFTC, Inc., Tangent Holdings Corporation, and Alliedbankers Insurance Corporation
Other Previous Positions	* Director of Allied Banking Corporation (ABC) from January 30, 2008 until the ABCøs merger with PNB on February 9, 2013

Name	**DEOGRACIAS N. VISTAN**
Age	71
Nationality	Filipino
Education	* Bachelor of Arts and Bachelor of Science in Business Administration, De La Salle University * Masters in Business Administration, Wharton Graduate School
Current Position in the Bank	Independent Director
Date of First Appointment	August 1, 2011
Directorship in Other Listed Companies	Independent Director of Lorenzo Shipping
Other Current Positions	* Chairman and an Independent Director of PNB International Investments Corporation * Independent Director of PNB Capital and Investment Corporation * Chairman of V & A Foods Corporation and Pinoy Micro Enterprise Foundation * Director of U-Bix Corporation * Member of the Board of Trustees of the Ramon Magsaysay Award Foundation * Advisor of Mitsubishi Motors Philippines Corporation
Other Previous Positions	* Chairman of United Coconut Planters Bank * Vice Chairman of Metropolitan Bank and Trust Company * President of Equitable-PCI Bank, Solidbank Corporation, Land Bank of the Philippines and FNCB Finance * Member of the Board of Trustees, Landbank Countryside Development Foundation, Inc. * Various management positions in Citibank Manila, Cebu and New York * Presidential Consultant on Housing and President of the Bankers Association of the Philippines

Name	**EDGAR A. CUA**
Age	60
Nationality	Filipino
Education	* Bachelor of Arts in Economics degree (Honors Program) from the Ateneo de Manila University * Masters of Arts in Economics degree from the University of Southern California * Masters of Planning Urban and Regional Environment degree from the University of Southern California * Advanced Chinese from the Beijing Language and Culture University * Sustainable Development Training Program, Cambridge University
Previous Positions	* Held various managerial and staff positions at the Asian Development Bank (ADB) during a 30-year professional career. Retired in 2015 as Senior Advisor, East Asia Department of the Asian Development Bank (ADB), based in ADB's Resident Mission in Beijing, People's Republic of China(PRC). Other managerial positions in ADB included Deputy Director General, East Asia Department, Country Director, ADB Resident Mission in Indonesia and Deputy Country Director, ADB Resident Mission in PRC. * Staff Consultant, SGV & Co.

Name	**CARMEN K. TAN**
Age	75
Nationality	Filipino
Directorship in Other Listed Companies	* Director of MacroAsia Corporation, LT Group, Inc., and PAL Holdings, Inc.
Other Current Positions	* Director: Asia Brewery, The Charter House, Dominium Realty and Construction Corporation, Eton City, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., Air Philippines Corporation, Fortune Tobacco Corporation, Himmel Industries, Incorporated, Lucky Travel Corporation, Manufacturing Services & Trade Corp., Progressive Farms, Inc., PMFTC, Inc., Shareholdings Inc., and Sipalay Trading Corp.

Name	**MAILA KATRINA Y. ILARDE**
Age	32
Nationality	Filipino
Education	* Bachelor of Science in Legal Management, De La Salle University * Juris Doctor, Ateneo de Manila University School of Law
Current Position in the Bank	Corporate Secretary
Date of First Appointment	June 29, 2015
Other Current Position	* Acting Corporate Secretary of PNB Capital and Investment Corporation
Other Previous Positions	* Senior Associate, Roxas De Los Reyes Laurel Rosario & Leagogo * Assistant Corporate Secretary, Ionics, Inc. * Assistant Corporate Secretary, Ionics EMS, Inc.

Name	**RUTH PAMELA E. TANGHAL**
Age	47
Nationality	Filipino
Education	* Bachelor of Science in Mathematics, Notre Dame University * Bachelor of Laws (Notre Dame University)
Current Position in the Bank	Assistant Corporate Secretary
Date of First Appointment	June 29, 2015
Other Current Positions	* Director, E.C. Tanghal & Co., Inc.
Other Previous Positions	* Documentation Lawyer, PNB Legal Group * Director/Corporate Secretary, Rural Bank of Cotabato, Inc. * Director, Rural Bankers Association of the Philippines, Inc.

Board of Advisors:

Name	**JOSEPH T. CHUA**
Age	59
Nationality	Filipino
Education	* Bachelor of Arts in Economics and Bachelor of Science in Business Management from the De La Salle University * Masters in International Finance from the University of Southern California
Current Position in the Bank	Board Advisor
Date of First Appointment	May 26, 2015
Current Positions	* Chairman of Watergy Business Solutions, Inc. * Chairman of Cavite Business Resources, Inc. * Chairman of J.F. Rubber Philippines * President of Goodwind Development Corporation * President of MacroAsia Mining Corporation * President of MacroAsia Corporation * Director of PNB General Insurers Co., Inc. * Director of Bulawan Mining Corporation * Director of PNB Management and Development Corp. * Director of Philippine Airlines * Director of Eton Properties Philippines, Inc. * 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
Other Previous Positions	* Chairman of MacroAsia Mining Corporation * Director of Philippine National Bank * Director/Chief Operating Officer of MacroAsia Corporation * Managing Director of Goodwind Development Corporation

Name	**MANUEL T. GONZALES**
Age	78
Nationality	Filipino
Education	* Bachelor of Science in Commerce from the De La Salle University * Masters of Arts in Economics from Ateneo De Manila University
Current Position in the Bank	Board Advisor
Date of First Appointment	October 1, 2013
Current Positions	* Director of Allied Leasing and Finance Corporation * Director of Alliedbankers Insurance Corporation
Other Previous Positions	* Director of Allied Banking Corporation * Member, Management Association of the Philippines (MAP) * Member, Financial Executives of the Philippines (FINEX) * Member, European Chamber of Commerce of the Philippines (ECCP) * Member, Bankers Institute of the Philippines

Name	**WILLIAM T. LIM**
Age	75
Nationality	Filipino
Education	* Bachelor of Science in Chemistry from Adamson University
Current Position in the Bank	Board Advisor
Date of First Appointment	January 25, 2013
Previous Positions	* Consultant of Allied Banking Corporation * Director of Corporate Apparel, Inc. * Director of Concept Clothing * Director of Freeman Management and Development Corporation * President of Jas Lordan, Inc. * Worked with Equitable Banking Corporation for 30 years, occupying various positions, including as VP & Head of the Foreign Department

The following constitute the Bank's Corporate Governance Committee for the year 2015-2016:

Felix Enrico R. Alfiler*	-	Chairman
Reynaldo A. Maclang	-	Member
Christopher J. Nelson	-	Member
Lucio K. Tan, Jr.	-	Member
Michael G. Tan	-	Member
Florencia G. Tarriela*	-	Member
Deogracias N. Vistan*	-	Member

** Independent Director*

The following constitute the Bank's Board Audit and Compliance Committee for the year 2015-2016:

Deogracias N. Vistan*	-	Chairman
Felix Enrico R. Alfiler*	-	Member
Florido P. Casuela	-	Member
Christopher J. Nelson	-	Member
Harry C. Tan	-	Member

** Independent Director*

The following are the Executive Officers of the Bank:

REYNALDO A. MACLANG
(Please refer to page 15 of this Information Statement)

CENON C. AUDENCIAL, JR., 57, Filipino, Executive Vice President, is the Head of the Institutional Banking Group. Before joining the Bank in 2009, he headed the Institutional and Corporate Bank of ANZ, prior to which he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as a Vice President and Unit Head of Standard Chartered Bankôs 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, 54, Filipino, Executive Vice President, is the Head of the Treasury Group. He obtained his Bachelor of Science degree in Commerce, Major in Marketing, from the De La Salle University. Prior to joining PNB, he was an Executive Vice President and the Treasurer of EastWest Banking Corporation. He also held the post of Senior Vice President and Deputy Treasurer of Rizal Commercial Banking Corporation, Vice President/Head of the Foreign Exchange Desk of Citibank Manila and Vice President/Chief Dealer of the Treasury Group of Asian Bank Corporation. He brings with him 32 years of experience in the banking industry starting from Loans and Credit, Branch Banking, Fixed Income Sales, Trust Banking, Foreign Exchange and Fixed Income Trading, Portfolio Management and other Treasury-related activities.

CHRISTOPHER C. DOBLES, 72, Filipino, Executive Vice President, is the Head of the Corporate Security Group and designated as the Bankôs 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 ABC Credit Investigation and Appraisal Department and was appointed as the Internal Affairs Officer of the Anti Fraud Committee. He was a member of ABCôs 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 associationǫs Board of Directors up to the present.

NELSON C. REYES, 52, 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.

BERNARDO H. TOCMO, 54, Filipino, Executive Vice President, is the Head of the Retail Banking Group who manages the retail banking and credit card businesses of the Bank. Mr. Tocmo obtained his Masters in Business Economics from the University of Asia and the Pacific and likewise finished the Strategic Business Economics Program of said university. He graduated with a Bachelor of Science in AgriBusiness, major in Management from the Visayas State University. Mr. Tocmo is a seasoned banker with over three decades of work experience with the countryǫs top and mid-tier commercial banks. He started his career with United Coconut Planters Bank where he gained exposure in various facets of branch operations from 1982 to 1990. His banking experience was further honed at Union Bank of the Philippines (UBP) where he assumed key managerial positions in retail banking from 1990 to 1996. He left UBP with the rank of Senior Manager and joined Security Bank Corporation (SBC) in 1996 initially as Assistant Vice President for one of its biggest Makati branches. He moved up to First Vice President of SBC by the year 2005 where his last responsibility was as Area Business Manager for Makati and Alabang branches. Mr. Tocmo subsequently joined Metropolitan Bank & Trust Company in September 2005 initially as Vice President and Head of the Head Office Center. He was promoted to First Vice President in June 2007 while continuing to head this business center until April 2008. He was appointed as Visayas Region Head with the rank of Senior Vice President in May 2008 and between May 2010 to May 2012. He became the Head of the National Branch Banking Sector (NBBS) for Countryside Branches which covers 350 branches and thereafter as Head of the NBBS National Sales Office which covers 608 branches. He served as Deputy Head of NBBS from June 2012 to January 2014 with increased responsibilities for 671 branches, initially with the rank of Senior Vice President until his promotion to Executive Vice President in June 2013. From April 2012 to 2015, Mr. Tocmo was appointed Director of Metrobank Card Corporation. He became the Head of the NBBS in February 2014 with the rank of EVP and held this post until September 2015.

YOLANDA M. ALBANO, 65, Filipino, First Senior Vice President, is the Head of the Bank's Commercial Banking Group. She was previously the First Senior Vice President and Head of 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 member of the Board of Trustees of the College of the Holy Spirit, Manila and 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, 59, Filipino, First Senior Vice President, was appointed the Chief Compliance Officer of the Bank on June 16, 2010 with oversight on the Bank, including all subsidiaries, affiliates and foreign branches. She is concurrently the Corporate Governance Executive of the Bank. She obtained Bachelor of Science degree in Business Economics from the University of the Philippines. She has earned units in Masters in Business Administration at the Ateneo Graduate School of Business. Prior to joining the Bank, she was the Chief Compliance Officer of 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, 64, Filipino, First Senior Vice President, is the Head of the Human Resource Group. She is a graduate of Assumption College with a Bachelor of Arts degree, Major in Psychology, and an Associate in Commercial Science degree. She has been an HR practitioner for over 35 years. She started her career with China Banking Corporation in 1973 as an HR specialist prior to joining the 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 Bankersô 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, 57, Filipino, First Senior Vice President, is the Chief Credit Officer and Head of the Credit Management Group. He entered the Bank in March 2010 as Senior Vice President for Commercial Banking Group. He obtained his Bachelor of Science degree in Industrial Engineering from the University of the Philippines and Masters in Business Management degree from Asian Institute of Management. He started his banking career with Citibank NA in 1984. He later headed the Branch Banking Group of Land Bank of the Philippines in 1989 then joined Union Bank of the Philippines in 1994 where he was Senior Vice President and head of Credit and Market Risk Group. In 2007, he became the Country Manager for Genpact Services LLC.

JOHN HOWARD D. MEDINA, 46, Filipino, First Senior Vice President, has been the Head of the Global Operations Group since 2009. The group manages the Bankôs operations and back-office support units in the Philippines and overseas branches in the United States, Asia-Pacific and Europe. 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 Hawaiôi at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawaiôi. 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, 58, Filipino, is the President and CEO of PNB-IBJL Leasing and Finance Corporation and its subsidiary, PNB-IBJL Equipment Rentals Corporation. He has 39 years of experience in various areas of banking, particularly in human resources management, account management, branch banking, leasing and finance. 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 (1992ï 1995), BA Savings Bank (1997) and Philippine Bank of Communications (1998ï 2005).

BENJAMIN S. OLIVA, 63, Filipino, First Senior Vice President, is the Head of the Global Filipino Banking Group (GFBG) which manages PNBôs 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, 66, Filipino, is First Senior Vice President and the Head of the Remedial Management Group. She is the chief strategist for problem and distressed accounts. A seasoned professional, she rose from the branch banking ranks at the Philippine Banking Corporation to become Vice President for Marketing of its Corporate Banking Group. She obtained her Bachelor of Science degree in Commerce, Major in Accounting, from St. Theresa's College.

CARMELA A. PAMA, 59, 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, 63, Filipino, First Senior Vice President, is the Head of the Special Assets Management Group. He holds a Bachelor of Science degree in Commerce, Major in Accounting, from the University of Santo Tomas and took up masteral studies at the Letran College. Prior to joining the Bank, he was Senior Vice President of the Special Assets Group of 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.

MANUEL C. BAHENA, JR., 54, 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.

EMELINE C. CENTENO, 57, Filipino, Senior Vice President, is the Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science degree in Statistics (Dean's

Lister) and completed the coursework in Masters of Arts in Economics (on scholarship) from the University of the Philippines. She joined PNB in 1983, rose from the ranks and held various positions at the Department of Economics and Research, Product Development, Monitoring and Implementation Division and the Corporate Planning Division before assuming her present position as Head of the Corporate Planning and Research Group. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

DIOSCORO TEODORICO L. LIM, 61, 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, 55, 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 Graduate School of Business. 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. She is also currently the Treasurer of PNB Capital and Investment Corporation.

NORMAN MARTIN C. REYES, 50, Filipino, Senior Vice President, is the Bankộs 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.

ROBERTO S. VERGARA, 64, 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. He is also a Fellow at the Institute of Corporate Directors, Center for Good Governance.

CONSTANTINO T. YAP, 52, Filipino, Vice President, is the 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 and was promoted as Head of the IT Group on July 1, 2013. 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.

(b) Identify 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.

(c) Family Relationships

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

(d) Involvement in Certain Legal Proceedings

None of 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; or

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.

(e) 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 Bankọs 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 Bankọs 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 Bankọs equity or 15% of its total loan portfolio, whichever is lower. As of December 31, 2015 and 2014, the Bank and its subsidiaries were in compliance with 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.

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.

Item 6. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

(a) Executive Compensation

1) General

The 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 2014 and 2015 amounted to ₱44.325 million and ₱41.950 million, respectively.

Other than the abovestated, 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**
Mr. Reynaldo A. Maclang 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. Nelson C. Reyes Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2014	50,690,483	12,041,581	-	62,732,064
	Actual 2015	58,902,884	19,601,169	-	78,504,053
	Projected 2016	70,700,000	23,600,000	-	94,300,000
All other officers and directors (as a group unnamed)	Actual 2014	2,606,668,197	843,788,872	-	3,450,457,069
	Actual 2015	3,280,311,093	952,903,245	-	4,233,214,338
	Projected 2016	3,936,500,000	1,143,500,000	-	5,080,000,000

3) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All executive officers are covered by the Bankôs standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with Sec. 6.1, Article VI of the Bankôs Amended By-Laws, 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

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

Item 7. INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co. (SGV) is the current external auditor of the Bank and its domestic subsidiaries for the calendar year 2015. Representatives of SGV are expected to be present at the Annual Stockholdersô Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Ms. Vicky Lee Salas is the engagement partner of the Bank for the year 2015.

The Bank intends to retain SGV & Co. as its external auditor for the year 2016. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the Stockholders during the Annual Stockholdersô Meeting of the Bank.

OTHER MATTERS

Item 8. AMENDMENT OF THE BY-LAWS

The amendment of Section 4.2, Article IV of the Amended By-Laws, to change the date of the Annual Stockholdersô Meeting from the last Tuesday of May to the last Tuesday of April of each year, will be presented for the approval of the stockholders at the Annual Stockholdersô Meeting.

This is essential to align the schedule of the Annual Stockholdersô Meeting of the Bank with the other subsidiaries of LT Group, Inc., the Bank being a subsidiary of the latter.

Item 9. ACTION WITH RESPECT TO REPORTS

The following matters will be submitted to a vote at the Annual Stockholdersô Meeting:

1. Approval of the Minutes of the 2015 Annual Stockholdersô Meeting held on May 26, 2015

   Among others, the salient matters approved at the meeting of the stockholders in 2015 are as follows:

   a. Election of Directors

   b. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2014 Annual Stockholdersô Meeting

   c. Appointment of External Auditor

2. Approval of the 2015 Annual Report

   A copy of the 2015 Annual Report will be made available at the venue of the Annual Stockholdersô Meeting.

3. Ratification of all legal acts and proceedings of the Board of Directors and corporate officers since the 2015 Annual Stockholdersô Meeting

   A list of all legal acts, resolutions and proceedings taken by the Directors and corporate officers will be too voluminous to be included in this report. Most relate to regular banking transactions and credit matters which the Board of Directors, either by law or by regulations issued by the BSP, is required to act upon. These actions are subjected to the annual review of the BSP and the Bankøs external auditor.

Copies of the Minutes of the Meetings of the Board of Directors may be examined by the stockholders of record as of May 2, 2016 at the Office of the Corporate Secretary during business hours.

Item 10. OTHER ACTIONS

(a) Election of Directors

Fifteen (15) directors will be elected for the year 2016.

(b) Appointment of External Auditor

The Bank intends to retain SGV as its external auditor for the year 2016. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the stockholders during the Annual Stockholdersô Meeting of the Bank.

SGV has the advantage of having historical knowledge of the business of the Bank and its subsidiaries and affiliates, having been the appointed external auditor of the Bank in 2015 and prior years.

Ms. Vicky B. Lee-Salas, SGVøs Leader for Market Group 5 and one of the experienced audit partners in the banking industry, will be retained as audit partner-in-charge. In accordance with the amended SRC Rule 68(3)(b)(ix), there is no need at this time to change the audit partner for the Bank.

Item 11. VOTING PROCEDURES

The affirmative vote of the stockholders present in person or by proxy representing at least a majority of the stockholders present at the meeting shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Stockholdersô Meeting, except for Items 6 and 8 of the Agenda, on the amendment of the Amended By-Laws and election of directors.

For Item 6, on the amendment of the Bankøs Amended By-Laws, particularly Section 4.2, Article IV, to change the holding of the Annual Stockholdersô Meeting from the last Tuesday of May to the last Tuesday of April of each year, the favorable vote of the stockholders representing at least majority of the outstanding capital stock of the Bank is required.

For Item 8, on election of directors, the fifteen (15) nominees garnering the highest number of votes from the stockholders present or represented by proxy shall be elected directors for the ensuing year.

The manner of voting and counting of votes will be as follows:

a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his name on record as of the close of business hours on May 2, 2016. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before May 26, 2016 for inspection and recording, shall be honored for purposes of voting.

b) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. Under this voting system, the stockholder has the option to (i) cast all his votes in favor of one (1) nominee, or (ii) distribute those votes under the same principle among as many nominees as he shall see fit. Only candidates duly nominated shall be voted upon by the stockholders entitled to vote or by their proxies.

c) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and may be done by show of hands.

d) The manner of election and the counting of the votes to be cast shall be under the supervision of the Corporate Secretary.

Item 12. CORPORATE GOVERNANCE

The Bank acknowledges that corporate governance is a dynamic concept and is a framework of rules, systems and processes in the organization. It governs the performance of the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders. It provides direction for the promotion of a strong corporate governance culture and recognizes current best practices. It also strives to raise corporate governance standards to a level that is at par with global standards and ultimately contributes to the development of Philippine capital markets.

The Bank adheres to the highest principles of good corporate governance as embodied in its Amended Articles of Incorporation, Amended By-Laws Code of Conduct and Revised Corporate Governance Manual. It subscribes to the philosophy of rational checks and balances, fairness, integrity, accountability and transparency in its manner of doing business, dealing fairly with its clients, investors, stockholders, and the communities affected by the Bankǿs activities. The Bank espouses professionalism among its Board of Directors, executives and employees, subsidiaries and affiliates and respect for laws and regulations.

The Bankǿs operations are managed through an established organizational structure with adequate policies and procedures embodied in manuals approved by management, board committees and the Board of Directors. These manuals are subjected to periodic review and are updated to be consistent with the new laws and regulations and to conform with international standards and best practices. The Bank has adopted the Revised Corporate Governance Manual to align its internal policies with recently issued regulatory guidelines and new reportorial disclosures for significant transactions among related parties.

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

In 2015, PNB was recognized among all publicly listed companies in the country by the PSE as one of the Top Ten Bell Awardees. The awards commend listed companies and trading participants that practice the highest standards of corporate governance in the country.

Board of Directors

PNB is led by its Board of Directors, which is composed of fifteen members including five independent directors and the Chairperson. The members of the Board are elected annually by the stockholders. The Board is primarily responsible for approving and overseeing the implementation of the Bankǿs 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 International Monetary Fund and the World Bank, individuals with distinct finance, audit and legal competencies, and collectively holds 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, 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 December 2015. There are two directors inducted ñfellowò by the Philippine ICD and one director certified as a ñfellowò by the Australian ICD. This is 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 in a prudent manner 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 Chairperson Florencia G. Tarriela, and Messrs. Felix Enrico R. Alfiler, Deogracias N. Vistan, Cecilio K. Pedro and Federico C. Pascual, were approved and confirmed by the appropriate regulatory bodies.

The independent directors act as Chairman of the Board, Board Policy Committee, Corporate Governance/Nomination/Remuneration Committee, Board Oversight Committee ï Domestic and Foreign Offices/Subsidiaries, Board Audit and Compliance Committee, Board Oversight Related Party Transaction (RPT) Committee, and Risk Oversight Committee. Some of the independent directors are also members of the Trust Committee**.**

Chairperson of the Board

The Chairperson of the Board is Ms. Florencia G. Tarriela who has been serving in this role since 2005. Chairperson Florencia G. Tarriela has extensive background and experience in the banking industry and is an active member of numerous banking and non-profit institutions. She is currently a Life Sustaining Member of BAIPHIL and FINEX and a Trustee of TSPI Development Corporation. Her prior appointments include Undersecretary of Finance, Alternate Board Member of the Monetary Board of the BSP, Alternate Board Member of Land Bank and PDIC, and Managing Partner & the first Filipina Vice President of Citibank N.A., Philippines. As an Independent Director, Chairperson Florencia G. Tarriela sits as Chairman of Risk Management Committee and member of the three (3) Board Committees.

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

Board Committees

The following nine (9) board committees have been instrumental in setting the tone for the corporate governance practices of the Bank, its subsidiaries and affiliates,: Board Policy Committee; Board Audit and Compliance Committee; Risk Oversight Committee; Trust Committee; Corporate Governance/ Nomination/Remuneration Committee; Board Oversight Committee ï Domestic and Foreign Offices/Subsidiaries; Board IT Governance Committee; Board Oversight RPT Committee; and Executive Committee.

The authority, duties and responsibilities, as well as the frequency of the board committee meetings are stated in their respective charters. Meetings are generally held on a monthly basis which may include special board committee meetings when necessary. The board committee secretariats are responsible for ensuring that the regular agenda of the meetings and resource persons are communicated prior to meetings and that discussions and attendance of the members are properly recorded and endorsed to the Board for confirmation.

The oversight control committees such as Corporate Governance/Nomination/Remuneration Committee; Board Audit and Compliance Committee; Risk Oversight Committee; and Board Oversight RPT Committee are chaired by Independent Directors.

In 2015, the Bank focused more on the strengthening and enhancement of the existing RPT policies and procedures in order to be more comprehensive and to align its provisions with the recently issued BSP guidelines on RPTs, with the principles of the Annual Corporate Governance Report (ACGR); ASEAN Corporate Governance Scorecard (ACGS); and with Basel III guidelines on good corporate governance.

Among the areas affected by the expanded and comprehensive implementation of RPT policies and procedures are the strengthened oversight functions of the Board, Board Oversight RPT Committee (BORC), and Senior Management, embedded RPT policies and procedures in the Operations Manuals of the respective business units, expanded implementation across business entities, developed RPT database system, and independent reviews of the Internal Audit and Global Compliance Groups, external auditors and examination by regulatory bodies.

In order to prevent abuses arising from exposures to related parties on the covered transactions and to address conflict of interest, the Bank has a board approved enterprise-wide policy framework in place. The BORC was created to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest, ensure that exposures to related parties are made on an arm's length basis and are effectively monitored, appropriate steps are taken to control or mitigate the risks and write-offs of such exposures are made according to standard policies and processes. The RPT policy guidelines cover a broader spectrum of transactions not only those that give rise to credit and/or counterparty risks but also those that could pose material risk or potential abuse to the Bank, and its stakeholders. The Bank ensures that individual and aggregate exposures to related parties are within prudent levels consistent with the existing prudential limits and internal limits through independent reviews by Internal Audit and Global Compliance Groups, disclosures and/or reporting requirements as well as compliance awareness training program on RPT. The members of the Board, shareholders, and management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matters affecting the Bank. Directors and officers involved in possible conflict of interest shall disassociate from participating in the decision making process and abstain in the discussion, approval and management of such transactions or matters affecting the Bank. The BORC may inform the Corporate Governance/Nomination/Remuneration Committee of the directors/officers' actual/potential conflicts of interest with the Bank, as necessary.

Factors to be considered in evaluating RPTS include (i) related party's relationship to the Bank and interest in the transaction; (ii) material facts of the proposed RPT, including the proposed aggregate value of such transaction; (iii) benefits to the Bank of the proposed RPT; (iv) availability of other sources of comparable products or services; and (v) an assessment as to whether the terms of the RPT are comparable to generally available to similarly-situated non-related parties.

Board Oversight RPT Committee (BORC)

The BORC was created in September 2013. The authorities and responsibilities of the BORC are governed by a Charter to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of shareholders, board members, management, and other stakeholders of PNB Group. The Committee is composed of at least five (5) regular members, including the three (3) Independent Directors (IDs); and the two (2) non-voting members, the Chief Audit Executive (CAE), and the Chief Compliance Officer (CCO). The CCO is designated as Secretariat of the Committee.

The BORC has the authority to evaluate material RPTs. These should be conducted in the regular course of business on an arm's length basis; and not undertaken on more favorable economic terms (e.g. price, commission, interest rates, fees tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. No corporate or business resources of the Bank are to be misappropriated or misapplied and sound judgment is to be exercised for the best interest of the Bank. Material RPTs are to be reviewed and endorsed to the Board for approval/notation.

The duties and responsibilities of the BORC include: (i) reviewing and approving RPT policy guidelines; (ii) evaluating on an ongoing basis existing relations between and among businesses and counterparties; (iii) assessing all material RPTs; (iv) ensuring that appropriate disclosures are made; (v) reporting to the Board the status and aggregate exposures to related parties; (vi) ensuring that RPTs, including write-off of exposures are subject to independent reviews; and (vii) overseeing implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies and procedures.

The RPT policy has been formulated and adopted in accordance with the provisions of the SEC Code of Corporate Governance; and BSP Circular Nos. 749 and 895, including the Code of Conduct and Business Ethics which the Bank consistently adopts. These are as follows:

- Code of Conduct – it prescribes the moral code for PNB Group employees that instills discipline and yields higher productivity at the workplace and enhances and safeguards the corporate image of the

Bank. Its overall intent is more for the prevention of the infraction 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 ï this policy encourages the Bankôs 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.

- Soliciting and/or Receiving Gifts Policy - all employees are expected to observe discretion and prudence in receiving gifts or donations whether in cash or in kind and other forms 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, i.e., kept for personal use, donated to charity. On the other hand, gifts with estimated value of more than ₱5,000.00 shall likewise be reported and turned-over to HRG for donation to any legitimate charitable institution preferred by the concerned employee.

- Personal Investment Policy ï 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 nonpublic 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 security unless the transaction is effected as a bona-fide hedge.

The Corporate Governance and RPT frameworks are integral in the Bankôs Compliance Awareness Training Program conducted regularly by the Global Compliance Group to sustain awareness of group-wide personnel, as well as other stakeholders on good corporate governance and RPT compliance. Corporate governance and RPT trainings support the Bankôs commitment of continuing awareness among the Board of Directors, senior management, employees, and other stakeholders of PNB Group.

Operations Management

The responsibility of managing the day-to-day operations of the Bank and implementing the major business plans rests on the President and Chief Executive Officer. Critical issues, policies and guidelines are deliberated in the following 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, Assets/Records Disposal 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 its 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 comprised of senior management of the Bank and key officers of the various business segments, 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 Bankôs compliance system.

The Chief Compliance Officer (CCO), 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 Parent 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 CCO 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 Bankôs Compliance System with the complement of five 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 Bankôs 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 also incorporates the new policies, laws and regulations and enhancements to corporate standards of which PNB, including its local and foreign subsidiaries/affiliates, is required to be fully aware of. The Compliance Program has been implemented consistently in the PNB Group.

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

With a comprehensive compliance system effectively implemented enterprise-wide, there has not been material deviation noted by the CCO.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The Registrant undertakes to provide without charge to each stockholder a copy of the Bank's Annual Report or SEC Form 17-A upon written request to the Bank addressed to:

The Corporate Secretary
Philippine National Bank
9/F, PNB Financial Center
President Diosdado Macapagal Blvd.
Pasay City, Metro Manila

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on April 20, 2016.

PHILIPPINE NATIONAL BANK

by:

MAILA KATRINA Y. ILARDE
Corporate Secretary

Annex "A"

AGENDA

DETAILS AND RATIONALE

1. **Call to Order**. The Chairman, Ms. Florencia G. Tarriela, will formally open the 2016 Annual Stockholders' Meeting of the Philippine National Bank ("PNB", the "Bank").

2. **Secretary's Proof of Notice and Quorum**. The Corporate Secretary, Atty. Maila Katrina Y. Ilarde, will certify that copies of the Notice were duly sent to the stockholders of record as of May 2, 2016. Thereafter, Atty. Ilarde will certify as to the existence of a quorum for the valid transaction of business at the Annual Stockholders' Meeting.

3. **Approval of the Minutes of the 2015 Annual Stockholders' Meeting held on May 26, 2015.** The Minutes of the 2015 Annual Stockholders' Meeting of the Bank will be presented to the stockholders for approval. Copies of the said Minutes, as well as the resolutions of the Board of Directors from the last stockholders' meeting held on May 26, 2015 up to present, are available for examination during office hours at the Office of the Corporate Secretary at the 9th Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila.

4. **Report of the President on the Results of Operations for the Year 2015.** The President, Mr. Reynaldo A. Maclang, will present to the stockholders the highlights of the Bank's performance for the year 2015.

5. **Approval of the 2015 Annual Report.** The 2015 PNB Annual Report, as well as the Audited Financial Statements (AFS) as of December 31, 2015, will be presented to the stockholders for approval. A copy of the AFS is incorporated in the Definitive Information Statement distributed to the stockholders.

6. **Amendment of Section 4.2, Article IV of the Amended By-Laws to change the date of the Annual Stockholders' Meeting from the last Tuesday of May to the last Tuesday of April of each year.** The proposed amendment to the PNB Amended By-Laws to move the date of the Annual Stockholders' Meeting will be presented to the stockholders for approval.

7. **Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2015 Annual Stockholders' Meeting.** The acts, resolutions and proceedings of the Board of Directors and Corporate Officers since the 2015 Annual Stockholders' Meeting, most of which relate to regular banking transactions and credit matters which the Board of Directors, either by law or by regulations issued by the Bangko Sentral ng Pilipinas, is required to act upon, will be presented to the stockholders for approval and ratification. Copies of the Minutes of the Meetings of the Board of Directors may be examined upon request by the stockholders of record as of May 2, 2016 at the Office of the Corporate Secretary during business hours.

8. **Election of Directors.** The Corporate Secretary will present to the stockholders the nominees for election as members of the PNB Board of Directors. The profiles of the nominees are included in the Definitive Information Statement distributed to the stockholders.

9. **Appointment of External Auditor.** The appointment of SGV as the Bank's external auditor for the year 2016 will be presented to the stockholders for confirmation and ratification.

10. **Other Matters.** Other matters arising subsequent to the sending out of the Notice of the Meeting and the Agenda, and as may be relevant to the Annual Stockholders' Meeting, may be presented to the stockholders for consideration.

11. **Adjournment.** Upon consideration of all matters included in the Agenda, the Chairman shall declare the meeting adjourned.

P R O X Y

The undersigned stockholder of **PHILIPPINE NATIONAL BANK** (“PNB”) does hereby nominate, constitute and appoint:

____

as my/our proxy, with the right of substitution and revocation, to represent me/us and vote all shares registered in my/our name in the books of PNB at the Annual Stockholders’ Meeting scheduled on May 31, 2016. I/we hereby confirm and ratify any and all acts lawfully done by my/our proxy pursuant hereto.

Any other proxy or proxies issued by me/us on or before this date is/are hereby considered revoked and declared null and void and will have no effect whatsoever.

Date: ____________

____

Signature over Printed Name

MANAGEMENT REPORT

Item 1. Business

A. Business Development

The Philippine National Bank (hereinafter PNB or the ñBankò), the countryôs first universal bank, is the fourth largest private local commercial bank in terms of assets as of December 31, 2015. 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 countryôs 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 travelerôs 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 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 on March 6, 2012. The original Plan of Merger was approved on June 24, 2008 by the affirmative vote of ABC and the Bankôs respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks.

In 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 on 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. The Offer was oversubscribed and raised gross proceeds amounting to ₱11.6 billion. The Offer strengthened the Bankôs capital position under the Basel III standards which took effect on January 1, 2014.

In April 2015, PNB successfully closed and signed a USD150 million 3-year syndicated term loan facility with a large group of international and regional banks. The facility was launched at USD150 million and attracted total commitments of USD220 million at the close of the syndication, representing an oversubscription of about 1.5 times with lending commitments received from 10 regional and international banks. This marks PNBôs return to the syndicated loan market after more than a decade, the last being in 1998. The diversity of the syndicate of lenders is an affirmation of the growing international market appetite for assets from the Philippines. The success of the transaction is a strong acknowledgment of the capital marketôs confidence in the credit strength of the Bank.

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 PNB Web Remit in the last quarter of 2013 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 Fargoôs extensive network of more than 9,000 stores and 12,500 ATMs across 39 states in the US.

In December 2015, Allianz and PNB have reached an agreement to enter into a 15-year exclusive distribution partnership and for Allianz to acquire 51 percent of PNB Life Insurance, Inc. (PNB Life), the life insurance subsidiary of PNB. The joint venture company will operate under the name ñAllianz PNB Life Insurance, Inc.ò An important part of the joint venture between Allianz and PNB is a 15-year bancassurance agreement, which will provide Allianz exclusive access to more than 660 PNB branches located nationwide, and four million PNB customers. Under the terms of the agreed transaction, Allianz will acquire 51 percent and management control of PNB Life. The closing of the transaction is subject to regulatory approval.

In affirmation of the Bankôs well-managed operations, PNB received awards from the Bangko Sentral ng Pilipinas (BSP) and other international award-giving bodies. 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. In the 2014 BSP Stakeholdersô Ceremony, the Bank was recognized as the Outstanding PhilPass REMIT Participant. In recognition of PNBôs 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. PNB was also awarded by the Asian Banking and Finance Awards as the ñBest Website for 2015 Philippinesò in honor of the Bankôs concerted efforts to address the ever-evolving needs of its clients. BancNet, on its 25th Anniversary, also awarded PNB the ñTop Inter-Bank Fund Transfer (IBFT) Transferee.ò On October 2, 2015, PNB was awarded the Excellence in Retail Financial Services Award under the ñBest Remittance Business in the Philippinesò category by The Asian Banker. This is in recognition of the value-added differentiation that the Bank provides to the overseas Filipinos beyond remittance to include financial services such as Own-a-Philippine Home Loan, Pangarap Loan and Overseas Bills Payable System as well as other innovative products like Healthy Ka Pinoy medical card and ATM Safe insurance.

PNB remained at the forefront of the debt capital market as the Bank led 19 corporate finance deals worth more than P108 billion in the power, infrastructure, telecommunications and real estate industries in 2015. As a clear demonstration of the Bankôs commitment in offering competitive financing structures to clients while contributing to economic development and nation building, PNB and its wholly-owned subsidiary PNB Capital and Investment Corporation, were recognized internationally last October 30, 2015 when they won four awards from The Asset Triple A Asia Infrastructure Awards in Hong Kong. The awards were given for the following deals: a) Best Project Finance Deal of the Year and Best Transport Deal, both for the ₱31 billion project finance syndicated term loan facility for the Metro Manila Skyway Stage 3 Project; b) Best Transport Deal, highly commended for the ₱23.3 billion financing facility for the GMR Megawide Cebu Airport Corporation Project; and c) Best Power Deal for the ₱33.3 billion financing facility for the Pagbilao Energy Corporation Project.

In October 2015, Fitch Ratings gave PNB a credit rating of "BB" with a stable outlook, reflecting the Bankôs strong franchise and high capital ratios. This credit rating is two notches below investment grade level and higher than the current credit rating of S&P at ñB+ò which is four notches below investment grade. In May 2015, Moodyôs Investors Service has also upgraded the rating of PNB to investment grade, reflecting the consistent improvement in the Bankôs credit profile. PNBôs long-term and short-term ratings were raised two levels up from Ba2/NP to Baa3/P-3.

B. Business Description

1. Product and Services

PNB, through its Head Office and 665 domestic branches/offices and 75 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small and medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and government owned and controlled corporations (GOCCs) in the Philippines. PNBôs 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 Bankôs Institutional Banking Group (IBG) is responsible for credit relationships with large corporate, middle-market and SMEs, as well as with the government, government-related agencies, GOCCs and financial institutions.

Retail Banking Group
The Retail Banking Group (RBG) principally focuses on retail deposit products (i.e., current accounts, savings accounts, time deposits and other accounts) and services. While the focal point is the generation of lower cost of funding for the Bankôs 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 Bankôs retail clients. Effective August 1, 2014, PNBôs thrift bank subsidiary took over the management of PNBôs consumer loans.

Global Filipino Banking Group
The Global Filipino Banking Group (GFBG) covers the Bankôs 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.

Treasury Group
The Treasury Group (TG) is principally responsible for managing the Bankôs funding and liquidity requirements as well as its investment and trading portfolio. The Bank engages in interbank borrowing and lending activities, fixed income securities trading and foreign exchange spot and swap dealing. It also oversees the Bankôs long-term funding requirements and enters into derivative transactions for hedging requirements of some of the Bankôs sophisticated corporate accounts.

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

Credit Management Group
The Credit Management Group (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 nonperforming loans of the Bank. It determines and formulates the appropriate settlement plan for the immediate resolution of each work-out account.

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

2. Competition

In the Philippines, the Bank faces stiff competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was, in part, a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, and the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there are 40 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 20 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 a diverse range of products and services, invests in technology, leverages on the synergies within the Tan Group of Companies and with its government customers, as well as builds on relationships with the Bankös other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bankös 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 constantly.

As of December 31, 2015, the Bank has a distribution network of 665 branches and offices and 937 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

3. Revenue Derived from Foreign Operations

The Bank and its subsidiaries (the Group) offer a wide range of financial services in the Philippines. The percentage contributions of the Groupös offices in Asia, the Canada and USA, United Kingdom and Other European Union Countries to the Groupös revenue, for the years 2015, 2014, 2013 are as follows:

	2015	2014	2013
Asia (excluding the Philippines)/ Middle East	5%	4%	5%
Canada and USA	2%	2%	2%
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 2015:

a. **PNB Smart Loans**
PNB introduced in November 2015 innovative terms for housing and motor vehicle loans which will be aligned to the borrowersô capability to generate cash flows.

b. **PNB SSS Pensioner Loan Program**
PNB, in partnership with the Social Security System (SSS), launched in August 2015 the PNB SSS Pensioner Loan Program. This program is open to all active SSS pensioners up to 70 years old. As part of the program, pensioners will also receive FREE insurance coverages namely, Credit Insurance, ATMSafe and Healthy Ka Pinoy.

c. **Power Earner 5 plus 1 (PNB Savings Bank)**
Power Earner 5 plus 1 is a 5-year and 1-day Time Deposit that offers a higher yielding rate, a fixed income through monthly credit of interest. The interest earned shall be withholding tax-free for individual depositors provided there is no pre-termination made. It was launched last February 2015.

d. **PNB Unit Investment Trust Fund (UITF) ATM Investment Facility**
The Bank further expanded the distribution channel of the PNB UITF through its ATM Investment Facility. Soft launch was done at the ATM of the Main Branch last May 2015.

e. **Anti-Skimming Protection Solution (SPS)**
All new ATM units acquired by the Bank and currently being installed have a real-time detection of the presence of a fraudulent device on the ATMs that can manage response to a potential skimming attack before it occurs.

f. **Adoption of Triple Data Encryption Standard (3DES)**
The Bank replaced all Single DES ATMs in March 2015 with 3DES, a more secure form of encryption and has the advantage of proven reliability against attacks. This is in line with BSP Circular No. 808 pertaining to the Guidelines on Information Technology Risk Management for all Banks and other BSP Supervised Institutions.

g. **PNB Revolutionizes Bank on Wheels**
True to its philosophy of prioritizing its customers, PNB created the Bank on Wheels project to provide Filipinos easy access to their banking needs anytime, anywhere. Now revolutionized to meet the evolving needs of the market, Bank on Wheels was re-launched last December 11, 2015 to provide cash services when clients need it most.

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 Bankǒs 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 Bankǒs 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 Bankǒs equity or 15% of its total loan portfolio, whichever is lower. As of December 31, 2015 and 2014, the Bank and the Group were in compliance with such regulations.

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

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

The Bankǒs 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 2015, 2014 and 2013 totaled ₱372.7 million, ₱373.4 million and ₱363.0 million, respectively.

9. Number of Employees

The total number of employees of the Bank as of December 31, 2015 is 8,349 wherein 3,582 are classified as bank officers and 4,620 as rank-and-file employees, broken down as follows:

Officers:	Total
Vice President and up	147
Assistant Manager to Senior Assistant Vice President	3,582
Rank-and-File	4,620
Total	8,349

The Bank shall continue to pursue selective and purposive hiring 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 additional reduction in the number of employees in the support group upon full implementation.

With regard to the Collective Bargaining Agreement (CBA), the Bankӧs 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 Bank places a high priority on risk management and has taken concrete steps to refine its framework for risk management, including the identification and control of the risks associated with its operational activities.

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

Strong independent oversight has been established at all levels within the group. The bankӧs Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNBӧs risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively. There are nine (9) Board Sub-Committees designated by the PNB Board of Directors to provide oversight and strengthen the functions accordingly. Please see diagram below.

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

Figure 1: Board Level Committees

Note:

[1] Board Committee changes effected in Jan 2016. Board ICAAP Steering Committee functions are now subsumed into the Board Policy Committee. Board Credit Committee has been renamed to Executive Committee with expanded functions.

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

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

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

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

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The risk management system and the directorsô criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.
In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 10 Material Risks (three for Pillar 1 and seven for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

1. Credit Risk (includes Credit Concentration, 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/ information security risk (includes Core Banking Implementation Risk)
10. New regulations risk

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

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

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

Credit Concentration Risks: Credit concentration risk arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector).Its potential loss implications are large enough relative to a bankộs capital, total assets, or overall risk level, to threaten a financial institutionộs health or ability to maintain its core operations. The objective of concentration risk management is to lessen the Bankộs potential credit default by maintaining risk exposure within acceptable and bearable concentration limit. Thus, to attain this objective, the Bank needs to manage the concentration risk inherent in the entire portfolio.

1. Credit Policies and Procedures

   All credit risk policies issued by the regulatory bodies (i.e., BSP, SEC, PDIC, BIR, etc.) automatically form part of the Bankộs board-approved risk policies. These risk policies reflect the Bankộs 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 ñchecks and balancesò, 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 Bankǿs 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 borrowersô 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 Bankǿs 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 institutionǿs 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).

Price Risk in the Trading Portfolio: 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. To calculate the potential risks in the trading portfolio, the Bank employs the Value-at-Risk (VAR) methodology both using parametric approach and Historical Simulation approach with 99% confidence level. The Bank assumes a one (1) day holding period (equities and FX VAR) to a ten (10) day holding period for fixed income VAR, nonetheless a one-day VAR is computed for each portfolio. The validity of the assumptions underlying the Parent Companyǿs VAR models can only be checked by appropriate back testing procedures. Back testing is a formal statistical framework that consists of verifying that actual losses are within the projected VAR approximations. The Parent Company adopts both the clean back testing and dirty back testing approaches approach in back testing.

VAR limits have been established annually and exposures against the VAR limits are monitored on a daily basis. The Bank also employs the stop-loss monitoring tools to monitor the exposure in the price risks. Stop-loss limits are set up to prevent actual losses resulting from mark-to-market. To complement the VAR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the Board of Directors. 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.

Structural Market Risk: Structural interest rate risk arises from mismatches in the interest profile of the Bankọs 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.

Liquidity and Funding Risk: Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the bankọs 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

The Bank adopts the following definition of Operational risk:

BSP Circular No. 900, series of 2016, on Guidelines on Operational Risk Management: "Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs.

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 ñnon-fitò personnel being ñforcedò 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 Management 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. Further, because of numerous internal and external reporting changes, the risk inherent in the utilization of ñexcel spreadsheetò for generating reports is all too imminent in the various business and support units of the bank. To address this risk, the Bank has documented policies and procedures duly approved by the Board. Fail safe checks and balances are also instituted to ensure that transactions / reports are completed with 2 or more ñeyesò that oversee correctness and accuracy. 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 bankôs overall business plan and strategy. At PNB, strategy risk is managed through each business sector performing ñactual vs. targetsò 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, terroristsô 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 Bankôs 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 Bankø BCP is tested at least on an annual basis with the following activities involved:

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

6. Information Technology / Information Security Risk

   The bank is on high gear in the implementation of the new core banking system with target live date by February 2017. The Bank recognizes the risk on IT/IS including the core banking implementation risk. 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 the Project Steering Committee (composed of members of the senior management). Regular reports are also submitted to the Board IT Governance Committee and the Board 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:

- Regular Reports to Project Steering Committee
- IT Project Risk Assessment
- Project Health Check

Information Security Risk is the risk to organizational operations (including mission, functions, image, and reputation), organizational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber threats involving use of social engineering which may involve psychological manipulation of clients and personnel into performing actions and /or divulging confidential information. Social Engineering can result in various key risk indicators ï phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others.

This can result to negative financial impact to both client and the bank. PNB has institutionalized various risk mitigating tools and activities to minimize, if not, eliminate the said cyber threats ï 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 constantly conducted.

Regulatory Capital Requirements under BASEL II – Pillar 1

The Bank's total regulatory requirements as of December 31, 2015 are as follows:

Consolidated(Amounts in P0.000 million)	Weighted Exposures
Total Credit risk-weighted assets	414,692.7
Total Market risk-weighted assets	3,428.0
Total Operational risk-weighted assets	39,541.9
Total Risk-Weighted Asset	457,662.6
Common Equity Tier 1 Ratio	16.233%
Capital Conservation Buffer	10.233%
Tier 1 Capital Ratio	16.233%
Total Capital Adequacy Ratio	19.241%

Credit Risk-Weighted Assets as of December 31, 2015

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, Moodyôs, Standard& Poorôs and PhilRatings agencies. The ratings of these agencies are mapped in accordance with the BSPôs 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	13,744		13,744	13,400	344				
Due from BSP	81,320		81,320	81,320					
Due from Other Banks	22,621		22,621		10,404	5,114		7,103	
Financial Asset at FVPL	17		17					17	
Available for Sale	69,356	10,335	59,021	17,327	3,268	8,763	0	29,663	0
Held to Maturity (HTM)	23,732	6,042	17,690	6,855	0	10,583	0	252	0
Unquoted Debt Securities	522	0	522					522	
Loans & Receivables	357,498	23,446	334,052	3,160	22,779	9,223	21,493	276,613	784
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	14,567		14,567	14,567					
Sales Contracts Receivable	4,332		4,332					3,327	1,005
Real & Other Properties Acquired	11,130		11,130						11,130
Other Assets									
Total On-Balance Sheet Asset	598,839	39,823	559,016	136,629	36,795	33,683	21,493	317,497	12,919
Risk Weighted Asset - On-Balance Sheet				0	7,359	16,841	16,120	345,522	19,377
Total Risk Weighted Off-Balance Sheet Asset				0	127	4,578	345	2,619	0
Counterparty Risk Weighted Asset in Banking Book				0	89	1,216	0	0	
Counterparty Risk Weighted Asset in Trading Book				0	25	44	431	0	

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

Market Risk-Weighted Assets as of December 31, 2015

The Bankôs regulatory capital requirements for market risks of the trading portfolio are determined using the standardized approach (ñTSAò). 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 instrumentôs 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 issuerôs 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 P0.000Million)	Capital Charge	Adjusted Capital Charge	Market Risk Weighted Exposures
Interest Rate Exposures	192.5	240.6	2,406
Equity Exposures	31.9	39.9	399
Foreign Exchange Exposures	49.8	62.2	622
Total	274.2	342.8	3,428

The following are the Bankôs exposure with assigned market risk capital charge.

Interest Rate Exposures

Specific Risk

Specific Risk from the held for trading (HFT) portfolio is P24million. Peso government securities represents 83% of the portfolio with zero risk weight while dollar denominated securities issued by the Republic of the Philippines (ROP) compose 11% of the portfolio with applicable risk weight ranging from 0.25% and 1.6% depending on the tenor of the securities. On the other hand, the Bankôs holdings of all other debt securities/derivatives that are issued by other entities and rated between AAA and BBB- are 1% of the portfolio and with applicable risk weight of 1.60%. Also included in the inventory are those rated below BBB- and with applicable 8.00% risk weight.

Part IV.1a INTEREST RATE EXPOSURES ï SPECIFIC RISK (Amounts in P0.000 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	3,591.2					
	Short	160.1					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		31.3		439.5		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long				32.9		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long					204.6	
	Short					-	
Subtotal	Long	3,591.2	31.3		472.4	204.6	
	Short	160.1					
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	0.1		7.6	16.4	24.0
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		-	0.1	-	7.69	16.4	24.0

General Market Risk ï Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is ₱130.2 million. In terms of weighted position, the greater portion of the Bankôs capital charge comes from the Over 7 to 10 year-time bucket at ₱30.2 million as well as Over 15 years to 20 years bucket at ₱30.3 million or a combined capital charge of ₱60.5 million. This is closely followed by the inventory under Over 5 years to 7 years bucket at ₱27.4 million. The Bankôs portfolio also includes exposures under the Over 20 yearsô time band with applicable 6% risk weight or capital charge of ₱15.4 million.

Currency: PESO								
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 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	11,476.1	710.5	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	2,047.9	-	0.20%	-	-	
	Over 3 months to 6 months	Over 3 months to 6 months	5.4	0.1	0.40%	4.1	-	
	Over 6 months to 12 months	Over 6 months to 12 months	7.6	-	0.70%	0.0	0.0	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	158.7	-	1.25%	2.0	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	3.7	-	1.75%	0.1	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	460.9	160.0	2.25%	10.4	3.6	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	433.5	-	2.75%	11.9	-	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	842.7	-	3.25%	27.4	-	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	804.7	-	3.75%	30.2	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	36.3	-	4.50%	1.6	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	577.2	-	5.25%	30.3	-	
	Over 20 years	Over 10.6 years to 12 years	256.4	-	6.00%	15.4	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total			17,110.94	870.6		133.4	3.6	
Overall Net Open Position								129.8
Vertical Disallowance								0.4
Horizontal Disallowance								-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE								130.2

General Market Risk ï US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is ₱34.2 million. The exposures are concentrated under the Over 10 to 15 years buckets with risk weight of 4.5% and corresponding capital charge of ₱16.5 million. The balance is distributed across the other time buckets up to Over 20 years with capital charge ranging from ₱0.6million to ₱2.8million.

Currency: USD								
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 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	2,991.5	11,968.2	0.00%	-	-	
	Over 1 month to 3 months	Over 1 month to 3 months	3,448.6	4,866.0	0.20%	6.9	9.7	
	Over 3 months to 6 months	Over 3 months to 6 months	517.7	-	0.40%	2.1	-	
	Over 6 months to 12 months	Over 6 months to 12 months	94.1	-	0.70%	0.7	-	
2	Over 1 year to 2 years	Over 1.0 year to 1.9 years	49.0	-	1.25%	0.6	-	
	Over 2 years to 3 years	Over 1.9 years to 2.8 years	-	-	1.75%	-	-	
	Over 3 years to 4 years	Over 2.8 years to 3.6 years	33.1	-	2.25%	0.7	-	
3	Over 4 years to 5 years	Over 3.6 years to 4.3 years	2,761.5	2,706.9	2.75%	75.9	74.4	
	Over 5 years to 7 years	Over 4.3 years to 5.7 years	48.0	-	3.25%	1.6	-	
	Over 7 years to 10 years	Over 5.7 years to 7.3 years	39.3	-	3.75%	1.5	-	
	Over 10 years to 15 years	Over 7.3 years to 9.3 years	367.8	-	4.50%	16.5	-	
	Over 15 years to 20 years	Over 9.3 years to 10.6 years	18.6	-	5.25%	1.0	-	
	Over 20 years	Over 10.6 years to 12 years	24.2	-	6.00%	1.5	-	
		Over 12 years to 20 years	-	-	8.00%	-	-	
		Over 20 years	-	-	12.50%	-	-	
Total		10,393.5	10,393.5	19,541.1		108.9	84.2	
Overall Net Open Position								24.8
Vertical Disallowance								8.1
Horizontal Disallowance								1.2
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							-	34.2

<u>General Market Risk ï Third currencies</u>

The Bank is likewise exposed to general market risks interest rate of various third currencies in Japanese Yen (JPY), Singapore Dollar (SGD) and Hongkong Dollar (HKD). Market Risk capital charge under these currencies range from ₱0.04 million to ₱3.4 million or combined capital charge of ₱4.01 million.

PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 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	-	18.1	0.00%	-	-		-	-	-
	Over 1 months to 3 months	-	236.7	0.20%	-	0.47	0.47	-	-	
			254.8							0.47
SGD	1 month or less	-	28.4	0.00%	-	-		-	-	
	Over 1 months to 3 months	-	189.2	0.20%	-	0.4	0.4	-	-	
			217.55							0.04
HKD	1 month or less	494.73	1,869.78	0.00%	-	-				
	Over 1 months to 3 months	-	329.35	0.20%	-	0.7				
	Over 3 months to 6 months	-	517.49	0.40%	-	2.1				
	Over 6 months to 12 months	-	94.04	0.70%	-	0.7				
		494.7	2,810.7							3.5
Total										4.01

<u>Equity Exposures as of December 31, 2015</u>

The Bankôs 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 Bankôs capital charge for equity weighted positions is ₱39.9 million or total risk-weighted equity exposures of ₱399.3 million

Item	Nature of Item	Positions	Stock Markets
			Philippines
A.1	Common Stocks	Long	199.6
A.10	TOTAL	Long	199.6
		Short	-
B.	Gross (long plus short) positions (A.10)		199.6
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		16.0
E.	Net long or short positions		299.6
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		16.0
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		31.90
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		39.9
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		399.3

Foreign Exchange Exposures as of December 31, 2015

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of ₱49.8 million based on an 8% risk weight. This would translate to risk-weighted FX exposure of ₱622.1 million. Majority of the exposure comes from FX assets and FX liabilities in USD/PHP. The Bank also holds third currencies in JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2015)						
	Closing Rate USD/PHP:					47.06
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries/ Affiliates			
		1	2	3	4=1+2+3	5
Currency						
A.1 U.S. Dollar	USD	4.8	6.6		11.3	533.7
A.2 Japanese Yen	JPY	0.5			0.5	22.1
A.3 Swiss Franc	CHF	0.3			0.3	12.3
A.4 Pound Sterling	GBP	-1.3			-1.3	-59.7
A.5 Euro	EUR	0.0			0.0	1.4
A.6 Canadian Dollar	CAD	0.1			0.1	6.6
A.7 Australian Dollar	AUD	0.2			0.2	7.5
8 Singapore Dollar	SGD	0.2			0.2	7.6
A. 9 Foreign currencies not separately specified above		0.7			0.7	30.9
A. 10 Sum of net long positions						622.1
A.11 Sum of net short positions						-59.7
B. Overall net open positions						622.1
Risk Weight						8%
Total Capital Charge For Foreign Exchange Exposures (B. times C.)						49.8
Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						62.2
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						622.1
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.)						622.1
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 (Basic Indicator Approach)

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, 2015	Gross Income	Capital Requirement (15% x Gross Income)
2012 (Year 3)	23,033.734	3,455.060
2013 (Year 2)	18,172.063	2,725.809
2014 (last year)	22,061.312	3,309.197
Average for 3 years		3,163.355
Adjusted Capital Charge	Average x 125%	3,954.194
Total Operational Risk weighted Asset		39,541.943

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, life and non-life insurance, investment banking, stock brokerage, leasing, and other related services.

The following represent the Bankôs significant subsidiaries:

Domestic Subsidiaries:

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 Bankôs 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.

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.

On April 3, 2014, the PNB-IBJL Leasing and Finance Corporation's Board and stockholders approved the increase of the companyôs authorized capital from ₱150 million to ₱1.0 billion, representing 10,000,000 shares with a par value of ₱100 per share, in preparation for the declaration of stock dividends. On June 27, 2014, PNB-IBJL Leasing and Finance Corporationôs Board approved the declaration of 2 shares to 1 share stock dividends to stockholders of record as of June 30, 2014.

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.

On January 13, 2015, the Securities and Exchange Commission (SEC) 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 SEC approved the change of name of Japan-PNB Leasing and Finance Corporation to PNB-IBJL Leasing and Finance Corporation.

As of December 31, 2015, PNB-IBJL Leasing and Finance Corporationôs consolidated total assets and total equity stood at ₱7.2 billion and ₱779.0 million, respectively. Its unaudited consolidated net income for the year ended December 2015 was ₱164.7 million.

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.

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

As of December 31, 2015, it had a paid-up capital of ₱27.5 million and total capital of ₱55.9 million. Its total assets and unaudited net income for the year ended December 31, 2015 were ₱404.4 million and ₱7.7 million, respectively.

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 2003, Allied Banking Corporation acquired a minority interest in NYLIP and started bancassurance operations in its branches nationwide.

In June 2007, New York Life International, LLC, because of its Asian strategy, divested all its interests in NYLIP in favor of Allied Bank and its principals, making the company a majority-owned subsidiary of Allied Bank.

In May 2008, NYLIP changed its corporate name to PNB Life Insurance Inc. to reflect the change in ownership and in anticipation of the merger of Allied Bank and Philippine National Bank. This change in branding demonstrates the new ownersô commitment to the Philippine life insurance market and its dynamism and growth prospects.

In October 2009, the Philippine National Bank acquired a minority stake in PNB Life paving the way for the expansion of bancassurance operations of PNB Life to PNB branches nationwide.

In February 2013, the merger of ABC and PNB with PNB as the surviving entity, 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 of competitive investment-linked insurance products, designed to meet changing client needs for complete financial solutions.

As PNB Life expands its reach to more Filipino families, the company has set up 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 cater Western Mindanao; Davao City to cover Eastern Mindanao; Cebu City to serve Eastern Visayas; Iloilo City to accommodate Western Visayas. In Metro Manila, it has business centers in Binondo in the City of Manila for West Metro Manila, while the offices in Quezon City Circle and Cubao seek to serve North and East Metro Manila, respectively.

In December 2015, global insurance firm Allianz SE acquired 51% and management control of PNB Life. As part of the deal, it entered into a 15-year exclusive distribution partnership with PNB. The closing of the transaction is subject to regulatory approvals.

Ranked among the top 10 life insurance companies in the Philippines, PNB Life is a leading provider of Variable Life Products, complemented by a 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 ñProviding New Beginnings in your Lifeò as it vigorously aims to be the dominant provider of Financial Security to Filipinos Worldwide.

PNB Savings Bank (PNBSB) is a wholly-owned subsidiary of PNB as a result of the merger of PNB and 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 Allied Savings Bank to further establish its association with the parent ABC. With the merger of PNB and ABC in 2013, Allied Savings Bank became a wholly owned subsidiary of PNB. In November 2014, the SEC approved the change of name of Allied Savings Bank to PNB Savings Bank.

PNBSB closed the year 2015 with total resources of ₱22.7 billion, up 8% from the previous year. Total deposits closed the year with ₱11.1 billion, the bulk of which, 71%, were in high cost funds maintained in Angat Savings and Power Earner 5+1, a special savings account and a long term deposits, respectively. This product continues to attract new customers and fresh funds given its competitive pricing versus other banksô equivalent product lines. Power Earner 5+1 had ₱4.0 Billion and Angat Savings had ₱3.0 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.

Total loan portfolio registered ₱19.1 billion by the end of 2015 which more than doubled the ₱9.0 billion level in 2014. Of the total loan portfolio, 93% comprised of consumer loans which is the thrust of the bank as the lending arm of PNB, parent bank, for the consumer loans.

PNBSB posted a net income of ₱167.0 million in 2015, higher by ₱57.0 million than the ₱110.0 million net income in 2014. Its net interest income of ₱1.0 billion was up year-on-year by 54% while pre-tax profits improved by 43% to close at ₱253.2 million. Return-on-equity stood at 1.5% lower than the previous year due to the capital infusion of ₱10.0 billion. A well capitalized PNBSBøs capital adequacy ratio (CAR) reached 56% and is well above the minimum required by the BSP. PNBSB ended the year with a network of 36 branches strategically located across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao.

PNB Securities, Inc. (PNBSI) was incorporated in January 18, 1991 and is a member of the Philippine Stock Exchange, Inc. (PSE). As a securities dealer, it is engaged in the buying and selling of securities listed in the PSE either for its own account as Dealer or for account of its customers as Broker. It is a wholly-owned subsidiary of PNB and ranked 41st among 132 active members in the PSE with 0.18% market share in terms of value turn-over as of December 31, 2015.

a. As of December 31, 2015, it has a total paid-up capital of ₱100.0 million with total assets and total capital of ₱301.1 million and ₱178.6 million, respectively. It ended year 2015 with a net income of ₱8.4 million.

b. The PNBSI has no bankruptcy, receivership, or similar proceedings in the past three (3) years.

c. There are no material reclassification, merger, consolidation, or purchase/sale of a significant asset not in the ordinary course of business.

Relative to its competitors, the companyøs strength lies in the fact that it is backed up by PNB, a universal bank and considered one of the top commercial banks in the country today.

Inherent to all engaged in the stockbrokerage business, the company is exposed to risks like Operational Risk, Position Risk, Counterparty Risk and Large Exposure Risk. To address, identify, assess and manage the risks involved, the company submits monthly to the SEC the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the brokerøs net liquid capital considering said risks. Further, the parentøs bank Risk Management Group is overseeing /monitoring the companyøs risk management/exposures.

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is an investment house with a non-quasi-banking license. It was incorporated on June 30, 1997 and commenced operations on October 8, 1997. It is licensed to operate as an investment house by the SEC with the Certificate of Registration No. 01-2008-00234. It renewed its license on November 27, 2015.

As of December 31, 2015, PNB Capital had an authorized and paid-up capital of ₱350.00 million or 3,500,000 shares at ₱100.00 par value. Its principal business is to provide investment banking services which include debt and equity underwriting, private placement, loan arrangement, loan syndication, project financing and general financial advisory services, among others. The company is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government. PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds and other entities that invest in such securities.

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

The primary risks of the company include underwriting, reputational and liability risks. First, underwriting risk pertains to the risk of marketôs 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 being held liable for any losses incurred by the client due to non-performance of committed duties or gross negligence by the company. These primary risks are addressed by:

- ensuring that the staff is well-trained and capable, at the functional and technical level, to provide the services offered;
- understanding the clientsô specific needs and goals;
- clarifying and documenting all goals, methodologies, deliverables, timetables and fees before commencing on a project or engagement and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or Board of Directors.

PNB General Insurers Co., Inc. (PNBGen) is a subsidiary of the Bank established in 1991. It is a non-life insurance company that offers coverage for fire and allied perils, marine, motor car, aviation, surety, engineering, accident insurance and other specialized lines. PNBGen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of ₱13 million. As of December 31, 2015, PNBGenôs paid-up capital was ₱912.6 million, one of the highest in the industry. Total Assets reached ₱7.21 billion with a total Net Worth of ₱686.10 million.

For the year ended December 31, 2015, the companyôs Net Income of ₱62.42 million became a Net Loss of ₱358.37 million after adding other provisions pertaining to prior years amounting to ₱420.79 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, 2015, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares with a par value of ₱100 per share. As of December 31, 2015, the total paid-up capital of PHC was ₱255.1 million while additional paid-in capital was ₱3.6 million, while total assets and total capital were ₱335.8 million and ₱335.1 million, respectively, and net income was ₱1.7 million.

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 temporarily 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 company. On December 16, 2013, PFIôs 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, 2015, unaudited total assets and total equity of PFI were ₱56.7 million and ₱56.0 million, respectively. For the year ended December 31, 2015, unaudited net income was ₱64,540.24.

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 6 February 1989 primarily to own, acquire, hold, purchase, receive, sell, lease, exchange, mortgage, dispose of, manage, develop, improve, subdivide, or otherwise deal in real estate property, of any type and/or kind of an interest therein, as well as build, erect, construct, alter, maintain, or operate any subdivisions, buildings and/or improvements. It is also authorized to explore and develop land mining claims and to sell/dispose such mining claims.

Foreign Subsidiaries:

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

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

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

Allied Banking Corporation (Hong Kong) Limited (ABCHKL) is a private limited company incorporated in Hong Kong in 1978 and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. By virtue of the merger between PNB and ABC in February 2013, PNB now owns 51% of ABCHK. Its registered office address is 1402 World-Wide House, 19 Des Voeux Road Central HK SAR.

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 general corporate services.

ABCHKL has one branch license and a wholly owned subsidiary (ñGroupò). The subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong which provides non-banking general services to its customers.

There were no significant changes in the nature of the Groupôs principal activities during the year.

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

PNB IIC owns **PNB Remittance Centers, Inc.** (PNB RCI) which was incorporated in California on 19 October 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of December 31, 2015, PNB RCI has 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 2015.

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 PNB RCN is regulated by the Nevada Department of Business and Industry ï Division of Financial Institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

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

Philippine National Bank (Europe) Plc **(PNB Europe)** was originally set up as a PNB London Branch in 1976. In 1997, it was converted into a wholly-owned subsidiary bank of PNB, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 19 members states of European Economic Area (EEA). In 2007, PNB Europe opened its branch in Paris, France, where it is engaged in remittance services. PNB Europe is regulated by the Financial Conduct Authority and authorized and regulated by the Prudential Regulation Authority. PNB Europe Paris branch is governed by the Banque de France.

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

PNB Global Remittance & Financial Company (HK) Limited (PNB Global)**,** a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On 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, 2015, it maintains seven (7) offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department of Hong Kong.

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

Item 2. Directors and Executive Officers

Please refer to pages 9 to 35 of the Information Statement.

Item 3. Audited Consolidated Financial Statements

The Audited Financial Statements (AFS) of the Bank and its Subsidiaries, which comprise the Statements of Financial Position as at December 31, 2015 and 2014 and January 1, 2014, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the three (3) years in the period ended December 31, 2015 and a Summary of Significant Accounting Policies and other explanatory information, Notes to Financial Statements, Independent Auditorsô Report and the Statement of Managementôs Responsibility are filed as part of this SEC 17-A report for the year ended December 31, 2015.

Item 4. Information on Independent Accountant, Changes in Accounting Principles and Other Related Matters

A. 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 Bankǿs external auditor, SyCip Gorres Velayo and Co. (SGV):

2015
Audit

- ₱14.582 million engagement fee for the audit of the Bankǿs Financial Statements as of December 31, 2015 [inclusive of out-of-pocket expenses (OPE) but excluding Value Added Tax (VAT)].

2014
Audit

- ₱12.802 million engagement fee for the audit of the Bankǿs 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 Long Term Negotiable Certificates of Time Deposit (LTNCD) in June 2014.

2013
Audit

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

Other related fees

- ₱13.305 million engagement fee for the review of Financial Statements as of March 31, 2013 and June 30, 2013 and issuance of comfort letter relative to the issuance of ₱5.0 billion LTNCD in July 2013 and ₱5.0 billion LTNCD in October 2013.

- ₱6.160 million engagement fee for the review of Financial Statements as of March 31, 2013 and 2012 relative to the Purchase Price Allocation.

- ₱10.500 million engagement fee for the review of the Financial Statements and issuance of comfort letter relative to the Stock Rights Offering of PNB.

- ₱1.232 million engagement fee for the review of Financial Statements of the Trust Banking Group for the year 2013.

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

The approval of audit engagement fees is based on the Bankǿs existing Manual of Signing Authority.

B. 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 Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2015. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- Amendments to Philippine Accounting Standards (PAS) 19, *Defined Benefit Plans: Employee Contributions*

- Annual Improvements to PFRSs 2010-2012 Cycle
  - PFRS 2, *Share-based Payment - Definition of Vesting Condition*

- PFRS 3 *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures – Key Management Personnel*

• Annual Improvements to PFRSs 2011 ï 2013 Cycle
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement - Portfolio Exceptions*
  - PAS 40, *Investment Property*

C. Disagreements with Accountants

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

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, there is no need at this time to change the audit partner for the Bank. Ms. Vicky B. Lee-Salas, SGVôs Leader for Market Group 5 and one of the more experienced audit partners in the banking industry, was the audit partner-in-charge for the year 2015.

Item 5. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial statements have been prepared in accordance with PFRS.

Financial Condition

2015 vs. 2014

The Groupôs consolidated assets stood at ₱679.7 billion as of December 31, 2015, 8.7% or ₱54.3 billion higher compared to ₱625.4 billion total assets reported as of December 31, 2014. Changes (more than 5%) in assets were registered in the following accounts:

- Due from Other Banks registered an increase of ₱2.7 billion from ₱15.6 billion as of December 31, 2014. On the other hand, Due from BSP decreased by ₱24.4 billion from ₱105.8 billion as of December 31, 2014 due to lower Special Deposit Account placement in 2015. Interbank Loans Receivable also decreased by ₱1.9 billion from ₱7.7 billion as of December 31, 2014.

- Financial Assets at Fair Value Through Profit or Loss (FAFVPL) were lower at ₱4.5 billion, from ₱17.4 billion as of December 31, 2014, mainly due to reclassification of the ₱13.8 billion ñSegregated Fund Assetsò of PNB Life from FAFVPL to ñAssets of Disposal Group Classified as Held for Saleò in line with the requirements of PFRS 5, Non-current Assets Held for Sale and Discontinued Operations. This arose following an agreement entered into between the Bank and Allianz last December 2015 for Allianz SE to acquire 51% ownership in PNB Life. PFRS 5 requires assets and liabilities of PNB Life, together with the results of operations of a disposal group, to be classified separately from continuing operations.

- Securities Held Under Agreements to Resell as of December 31, 2015 of ₱14.6 billion represents lending transactions of the Bank with the BSP.

- Available for Sale Investments and Held to Maturity Investment were higher at ₱68.3 billion and ₱23.2 billion as of December 31, 2015, respectively, from their ₱63.1 billion and ₱23.0 billion levels as of December 31, 2014, an improvement of ₱5.2 billion and ₱0.2 billion, respectively, due mainly to acquisition of various investments securities.

- Loans and Receivables reached ₱365.7 billion, posting a significant growth of 15.7% or ₱49.4

billion compared to the ₱316.3 billion December 2014 level mainly due to loan releases implemented in the current year to various corporate borrowers.

- Investment Properties decreased by ₱7.0 billion from ₱20.2 billion as of December 31, 2014 to ₱13.2 billion as of December 31, 2015, due to the following transactions:

  - sale of ₱1.0 billion Heritage Park lots
  - reclassification of ₱2.0 billion foreclosed properties to Bank Premises
  - reclassification of ₱1.2 billion properties entered into contractual agreements with real estate developers, and
  - disposal of ₱2.8 billion worth of foreclosed properties.

- Property and Equipment increased by ₱2.5 billion from ₱19.6 billion as of December 31, 2014 to ₱22.1 billion as of December 31, 2015 mainly due to the reclassification of certain foreclosed properties as discussed in previous paragraph which shall be used as bank premises.

- Intangible assets grew by ₱0.1 billion from ₱2.3 billion as of December 31, 2014 to ₱2.4 billion as of December 31, 2015 mainly due to the recording of costs incurred in the ongoing upgrading of the core banking system of the Bank which is targeted for completion in 2017.

- Deferred Tax Assets was lower by ₱0.3 billion from ₱1.5 billion as of December 31, 2014 to ₱1.2 billion as of December 31, 2015.

- ñAssets of Disposal Group Classified as Held for Saleò amounting to ₱23.5 billion pertains to assets of PNB Life which was presented under a separate line item in the financial statements in view of the sale agreement entered into between the Bank and Allianz last December 2015 as earlier discussed.

- Other assets was higher at ₱6.8 billion, or by ₱1.6 billion from last yearôs level mainly due to reclassification of ₱1.2 billion properties entered into contractual agreements with real estate developers from Investment Properties to Other Assets.

Consolidated liabilities went up by ₱48.5 billion or 9.2% from its ₱526.4 billion level as of December 31, 2014 to ₱574.9 billion as of December 31, 2015. Major changes in liability accounts were as follows:

- Financial liabilities at Fair value through profit or loss declined from ₱10.9 billion as of December 31, 2014 to ₱0.1 billion this year mainly due to reclassification of the ₱10.8 billion ñSegregated Fund Liabilitiesò of PNB Life from FLFVPL to ñLiabilities of Disposal Group Classified as Held for Saleò in line with the sale agreement with Allianz.

- Deposit liabilities totaled ₱485.9 billion, ₱38.3 billion higher compared to its year-end 2014 level of ₱447.6 billion. Increases were registered in Demand by ₱8.4 billion, Savings by ₱22.2 billion and Time deposits by ₱7.7 billion.

- Bills and Acceptances Payable increased by ₱6.7 billion, from ₱19.1 billion to ₱25.8 billion, mainly accounted for by various borrowings from other banks. Accrued Expenses Payable also increased from ₱5.4 billion to ₱5.9 billion as of December 31, 2015.

- ñLiabilities of Disposal Group Classified as Held for Saleò amounting to ₱21.5 billion pertains to liabilities of PNB Life which was presented under a separate liability line item also in view of the sale agreement with Allianz SE.

- Income Tax Payable increased by ₱49 million from ₱85 million to ₱134 million.

- Reduction of ₱7.7 billion in other liabilities was also attributed to reclassification of certain other liability accounts of PNB Life under a separate line item in the balance sheet as held for sale.

Total equity accounts now stood at ₱104.8 billion from ₱99.1 billion as of December 31, 2014, or an improvement of ₱5.7 billion mainly attributed to the following:

- current yearôs net income of ₱6.3 billion
- additional translation gain pertaining to equity investments in foreign subsidiaries of ₱0.7 billion
- ₱0.6 billion reserves of a disposal group held for sale pertaining to other comprehensive income of PNB Life presented under a separate line item in equity

These were partly offset by additional unrealized losses on mark to market of Available for sale investments of ₱1.4 billion.

<u>2014 vs. 2013</u>

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

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

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

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

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

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

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

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

- Other assets and Deferred Tax Assets were higher by ₱1.8 billion and ₱0.2 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 yearôs ₱8.1 billion attributed to the increase in segregated fund liabilities of PNB Life.

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

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

- ₱11.6 billion proceeds from the issuance of 162.9 million common shares in line with the stock rights offering in February 2014

- ₱5.5 billion net income for the twelve months period ended December 31, 2014

- ₱1.2 billion increase in net unrealized gain/(loss) on AFS adjustments and ₱0.2 billion increase in non-controlling interests.

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

2013 vs. 2012

As of end of the first year of the PNB-ABC merger, the Groupọs 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 of the merged Bank totaled ₱179.9 billion, 284.4% or ₱133.1 billion higher compared to the December 31, 2012 level of ₱46.8 billion. The increase came from Deposits with the BSP which grew by ₱116.0 billion while the increases in Cash and Other Cash Items and Due from Banks accounts of ₱6.2 billion and ₱10.8 billion respectively, pertain mainly to ABC accounts which were brought in to the merged Bank.

- Interbank Loans Receivable was at ₱8.4 billion as of December 31, 2013 or a decrease of 27.0% compared to the December 31, 2012 level of ₱11.5 billion due mainly to interbank lending transactions to various banks in December 2012.

- Securities Held Under Agreements to Resell as of December 31, 2012 of ₱18.3 billion represents lending transactions of the Bank with the BSP.

- Financial Assets at Fair Value Through Profit or Loss at ₱11.7 billion grew by ₱7.7 billion from ₱4.0 billion accounted for by the ₱7.1 billion Segregated Fund Assets designated as financial asset at FVPL. This account refers to the considerations from unit-linked insurance contracts received by PNB Life in designated funds. Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL and are evaluated at fair value basis in accordance with a documented risk management or investment strategy.

- Available for Sale Investments went up to ₱80.3 billion as of December 31, 2013, ₱13.3 billion or 19.9% higher than the ₱67.0 billion level as of December 31, 2012 considering net acquisition of various securities as well as AFS securities holdings from the former ABC.

- Loans and Receivables now stood at ₱274.3 billion, from ₱144.2 billion as of December 31, 2012 attributable mainly to the ₱92.3 billion total loans brought in by the former ABC to the merged Bank, of which more than 80% are corporate accounts. New loan releases to various corporate borrowers also contributed to the increase in Loans and Receivables.

- Investment Properties was ₱21.5 billion, up by ₱6.0 billion from the ₱15.5 billion reported as of December 31, 2012. This came from the ₱5.7 billion ROPA accounts of the former ABC.

- Property and Equipment (PPE) amounted to ₱19.8 billion as of December 31, 2013, an increase of ₱6.4 billion from the December 31, 2012 level of ₱13.4 billion on account of the merged PPE accounts of former ABC.

- Investment in Associate had a zero balance as of December 31, 2013 compared to the ₱2.4 billion as of December 31, 2012 primarily due to the increase in ownership of PNB in 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 Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

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

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

  - Deposit Liabilities, representing 87% of total liabilities of the merged Bank stood at ₱462.4 billion, higher by ₱221.5 billion compared to the December 2012 level of ₱240.9 billion, attributed to ABC deposit balances. Demand, Savings and Time deposits increased by ₱97.2 billion, ₱92.7 billion and ₱31.6 billion, respectively.

  - Financial Liabilities at FVPL increased by ₱1.6 billion to ₱8.1 billion as of December 31, 2013 from ₱6.5 billion as of December 31, 2012. The increase was primarily due to the ₱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 Groupôs documented risk management and investment strategy.

  - Accrued Expenses Payable and Other Liabilities also increased from ₱3.9 billion and ₱17.3 billion respectively, to ₱5.5 billion and P34.8 billion, respectively as of December 31, 2013. Increase in Other Liabilities of ₱17.7 billion came mainly from the other liabilities of the former ABC.

  - Income Tax Payable decreased by ₱0.1 billion from ₱0.2 billion to ₱0.1 billion

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

  - ₱41.4 billion market value of 423,962,500 PNB common shares issued in line with the PNB-ABC merger

  - ₱5.2 billion net income for the year ended December 31, 2013

  - ₱1.3 billion increase in the accumulated translation adjustment account.

  - ₱3.0 billion increase in non-controlling interest partly offset by:

- ₱4.6 billion mark-to-market loss on AFS

- ₱0.5 billion additional actuarial losses taken up in compliance with PAS 19.

Results of Operations

2015 vs 2014

- For the year ended December 31, 2015, the Bank recorded a net income of ₱6.3 billion, ₱0.8 billion higher compared to the ₱5.5 billion net income for the same period last year.

- Net interest income totaled ₱17.7 billion, higher by ₱1.2 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio which accounted for ₱2.0 billion increase in interest income partly offset by the decline in income from deposits with banks by ₱1.1 billion. Total interest income was up by ₱1.6 billion from ₱20.1 billion to ₱21.7 billion. Total interest expense however, was slightly higher at ₱4.0 billion or by ₱0.4 billion from ₱3.6 billion last year, resulting to improvement in Net Interest Margin.

- Other income this year declined to ₱5.1 billion from ₱6.2 billion last year mainly due to the ₱0.7 billion trading gains recognized last year on the sale of a minority equity holdings and the continued reduction in treasury related income in the current year. The decline in other income was partly offset by growth in gains from sale of foreclosed assets of ₱0.1 billion in the current year.

- Net service fees and commission income and net insurance premium were at ₱3.6 billion and ₱0.1 billion, respectively, for the year ended December 31, 2015.

- Administrative and other operating expenses was slightly lower this year at ₱18.9 billion compared to P19.2 billion last year. The reduction was attributed to lower provisions this year of ₱0.6 billion compared to ₱2.3 billion in 2014 mainly due to a reversal this year of provision on the NSC case (refer to Note 35 of the AFS). Compensation and Fringe Benefits was higher by ₱0.8 billion. Miscellaneous expense increased by ₱0.6 billion in 2015.

- Provision for income tax this year was higher at ₱1.6 billion compared to ₱1.4 billion last year in view of higher taxable income in the current year.

- Net Income from Discontinuing Operations of ₱0.4 billion pertains to net income of PNB Life which was presented under a separate line item in the FS in line with the sale agreement with Allianz.

- Total Comprehensive Income for December 31, 2015 amounted to ₱6.2 billion, ₱0.8 billion higher compared to the ₱5.4 billion for the same period last year. Improvement in OCI mainly came from higher net income and accumulated translation adjustments in the current year partly offset by unrealized losses on AFS investments.

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 year ended 2014 at ₱16.5 billion went up significantly by ₱3.0 billion compared to ₱13.5 billion in 2013 as interest income posted an increase of ₱1.9 billion at ₱20.1 billion vs ₱18.2 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 ₱1.6 billion to ₱6.2 billion from ₱7.8 billion for the same period last year. The decrease was attributed to lower gains from Trading and Investment Securities which declined by ₱3.3 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 ₱2.9 billion and ₱0.3 billion, respectively, for the period ended December 31, 2014.

- Administrative and other operating expenses totaled ₱19.2 billion for the year ended December 31, 2014, ₱2.3 billion more than last year's ₱16.9 billion. Increases were registered in Compensation and Fringe Benefits by ₱1.5 billion partly due to implementation of the 2014 Collective Bargaining Agreement effective July 2014. Provision for impairment and credit losses also increased by ₱1.5 billion to ₱2.3 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 yearǿs 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 ₱0.4 billion in accumulated translation adjustments, ₱1.0 billion re-measurement losses on retirement plan taken up in the current year.

2013 vs. 2012

- For the year 2013, the net income of the merged Bank reached ₱5.2 billion, ₱0.5 billion higher compared to ₱4.7 billion reported by PNB in 2012. The figure would have been much higher if not for the ₱865.5 million accrual on casualty losses (e.g. for typhoon Yolanda/Santi and for the Bohol earthquake) taken up in the later part of 2013.

- Net interest income amounted to ₱13.5 billion for the year ended December 31, 2013, almost double the ₱7.0 billion net interest income for the same period last year due to the expansion of the loan portfolio. Interest income was up by ₱6.8 billion from ₱11.4 billion to ₱18.2 billion. Interest expense however was also higher at ₱4.7 billion or by ₱0.3 billion from ₱4.4 billion last year.

- Fee-based and other income was higher by ₱0.2 billion at ₱7.8 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 ₱2.7 billion and (₱0.9 billion), respectively, for the period ended December 31, 2013.

- Administrative and other operating expenses of the merged Bank totaled ₱16.9 billion in 2013, ₱6.0 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 P0.8 billion and Other Miscellaneous Expenses by ₱1.8 billion, respectively.

- Provision for Income Tax was at ₱1.2 billion and ₱0.9 billion for the years ended December 31, 2013 and 2012, respectively with the increase primarily due to higher taxable revenues during the current period.

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

Key Performance Indicators

- Capital Adequacy/Capital Management

The Parent Companyґs 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 Bankґs 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 Bankґs 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 Bankґs capital contingency plan, if needed.

  - The Sub-Committee will evaluate and endorse to the Board the options to improve the Bankґs 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 Bankґs ICAAP shall meet the minimum regulatory requirement as well as the Bankґs internal thresholds.

  - The Sub-Committee shall determine the Bankґs 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.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Companyґs compliance with regulatory requirements and ratios is based on the amount of the Parent Companyґs ―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 No. 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. CET 1 ï 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. CET 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 CET 1 capital, Deposits for common stock subscription, Retained earnings, Undivided profits, other comprehensive income (net unrealized gains or losses on AFS and cumulative foreign currency translation), and minority interest on subsidiary banks which are less than wholly-owned

b. Additional Tier 1 capital consists of instruments issued by the bank that are not included in CET 1 capital that meet the criteria for inclusion in additional tier 1 capital, meet the required loss absorbency features for instrument classified as liabilities and loss absorbency feature at point of non-viability as defined in the BSP guidelines.

c. Tier 2 capital is composed of 1) instruments issued by the Bank (and are not included in AT1 capital) that meet criteria for inclusion in Tier 2 and meet the required loss absorbency feature at point of non-viability as defined in the guidelines, 2) Deposits for subscription of T2 capital, 3) appraisal increment reserves on bank premises as authorized by the Monetary Board, 4) general loan loss provision, limited to a maximum of 1.00% of credit risk weighted asset, and minority interest in subsidiaries which are less than wholly owned as defined in the guidelines.

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

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Parent Companyôs 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 Groupôs 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 19.24%, 20.60% and 19.68% as of December 31, 2015, 2014 and 2013, 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, 2015, 2014 and 2013 (amounts in billions):

CAPITAL ADEQUACY RATIO (CAR)

Amounts in Million	Consolidated			Solo		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Tier 1 (core) Capital / CET1 under BASEL III	**97,272.252**	**93,899.128**	**81,927.249**	**94,044.294**	**90,782.607**	**79,100.512**
Common stock	49,965.587	49,965.587	43,448.337	49,965.587	49,965.587	43,448.337
Additional Paid In Capital	31,331.251	31,331.251	26,499.909	31,331.251	31,331.251	26,499.909
Retained Earnings	18,277.578	13,368.528	9,568.295	17,799.075	12,689.560	9,002.417
Other comprehensive income	(4,720.666)	(3,469.641)		(5,051.619)	(3,203.791)	
Cumulative Foreign Currency Translation			(209.578)			149.849
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	2,418.502	2,703.403	2,620.286	-	-	-
Deductions from Tier 1 Capital / CET1 under BASEL III	22,978.468	22,391.624	19,715.452	47,596.437	45,931.470	19,385.053
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	1.515	1.906	54.051	1.515	1.906	54.051
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	1,958.667	1,575.000		1,878.667	1,575.000	
Deferred income tax	3,478.712	3,810.979	3,896.944	3,257.313	3,567.215	3,566.545
Goodwill	13,515.765	13,515.765	15,764.457	13,515.765	13,515.765	15,764.457
Other intangible assets	1,670.277	2,033.313		1,573.764	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)	-	-		25,141.007	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)	2,351.483	1,452.612		2,226.357	1,264.252	
Other equity investments in non-financial allied undertakings and non-allied undertakings	1.933	1.933		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		0.116	0.116	
Gross Tier 1 Capital / CET1 Capital under BASEL III	74,293.784	71,507.504	62,211.797	46,447.857	44,851.137	59,715.459
Additional Tier 1 Capital (AT1) under BASEL III	-	-		-	-	
TOTAL TIER 1 CAPITAL	74,293.784	71,507.504		46,447.857	44,851.137	
Upper Tier 2 Capital (BASEL II)			2,903.298			2,792.410
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.)	3,485.092	2,778.459	2,611.573	3,138.857	2,571.878	2,500.685
Lower Tier 2 Capital (limited to 50% of Tier 1 Capital) (BASEL II)			9,953.651			9,953.651
Unsecured Subordinated Debt	9,986.427	9,970.136	9,953.651	9,986.427	9,969.498	9,953.651
Total Tier 2 Capital	13,763.244	13,040.320	12,856.949	13,417.009	12,833.101	12,746.061
Deductions from Qualifying Capital (BASEL II)			623.123			14,735.834
Gross Tier 2 Capital (limited to 100% of Tier 1 Capital) under BASEL II / TOTAL TEIR 2 CAPITAL Under BASEL III	13,763.244	13,040.320	12,856.949	13,417.009	12,833.101	12,746.061
TOTAL QUALIFYING CAPITAL	**88,057.028**	**84,547.824**	**74,445.623**	**59,864.866**	**57,684.238**	**57,725.686**

The risk-weighted assets of the Group and Parent Company as of December 31, 2015, 2014 and 2013 are as follows:

Risk-weighted on:						
Balance sheet assets:	405,219.194	359,881.507	319,474.854	366,857.832	329,029.139	292,664.636
20%	7,358.947	3,948.319	3,365.582	6,677.082	3,845.662	2,438.801
50%	16,841.447	15,558.027	13,963.631	15,459.492	13,799.102	12,821.113
75%	16,119.608	14,282.083	15,492.672	14,063.362	13,705.209	15,028.768
100%	345,521.954	297,726.532	249,165.915	312,532.594	270,610.938	225,933.829
150%	19,377.239	28,366.547	37,487.054	18,125.303	27,068.228	36,442.125
Off-Balance sheet assets:	7,669.446	5,914.306	7,835.140	7,554.533	5,750.879	7,224.489
20%	127.791	64.024	34.381	127.791	64.024	34.381
50%	4,577.949	1,671.841	2,331.258	4,577.949	1,671.841	2,331.258
75%	344.806	442.532	519.572	344.807	442.532	519.572
100%	2,618.900	3,735.909	4,949.929	2,503.986	3,572.482	4,339.278
150%	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	1,304.542	1,497.381	599.806	1,304.541	1,497.381	599.806
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	499.469	275.678	9.914	471.965	254.248	-
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	414,692.651	367,568.872	327,919.714	376,188.871	336,531.647	300,488.931
Market Risk Weighted Assets	3,428.025	4,532.456	9,337.189	3,067.984	4,233.579	3,828.952
Operational Risk-Weighted Assets	39,541.943	38,234.751	40,938.779	35,791.717	34,261.055	36,178.156
Total Risk Weighted Assets	457,662.619	410,336.079	378,195.681	415,048.571	375,026.281	340,496.038

Capital Ratios

CET1 Cpital (BASEL III)	**16.233%**	**17.427%**		**11.191%**	**11.959%**	
Capital Conversion Buffer (BASEL III)	**10.233%**	**11.427%**		**5.191%**	**5.959%**	
Tier 1 capital ratio	**16.233%**	**17.427%**	**16.367%**	**11.191%**	**11.959%**	**15.374%**
Tier 2 capital ratio (not disclosed under BASEL III)			**3.317%**			**1.580%**
CAR	**19.241%**	**20.605%**	**19.684%**	**14.424%**	**15.381%**	**16.953%**

- Asset Quality

  The Groupôs non-performing loans (gross of allowance for impairment losses) decreased to ₱9.0 billion as of December 31, 2015 compared to ₱9.9 billion as of December 31, 2014. NPL ratios based on BSP guidelines are now 0.25% (net of valuation reserves) and 2.61% (at gross), from 0.92% and 3.42%, respectively in December 2014.

- Profitability

	Year Ended	
	12/31/15	12/31/14
Return on equity (ROE)[1/]	6.2%	6.1%
Return on assets(ROA)[2/]	1.0%	0.9%
Net interest margin(NIM)[3/]	3.2%	3.2%

[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*

- Liquidity

  The ratio of liquid assets to total assets as of December 31, 2015 was 30.5% compared to 34.1% as of December 31, 2014. Ratio of current assets to current liabilities was at 63.3% as of December 31, 2015 compared to 64.7% as of December 31, 2014.

- Cost Efficiency

  The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income resulted to 69.3% for the year ended December 2015 compared to 65.3% 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 Bankôs liquidity.

Events that will trigger direct or contingent financial obligation

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements, including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such disclosures would prejudice the 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.

Material off-balance sheet transactions, arrangement or obligation

The following is a summary of various commitments and contingent liabilities of the Group as of December 31, 2015 and 2014 at their equivalent peso contractual amounts:

	12/31/2015	12/31/2014
	(In Thousand Pesos)	
Trust department accounts	**₱78,708,656**	₱65,817,031
Derivative forwards	**32,378,255**	14,510,895
Standby letters of credit	**22,031,604**	11,281,048
Deficiency claims receivable	**21,562,415**	21,292,747
Credit card lines	**15,725,684**	13,996,427
Interest rate swaps	**9,317,880**	14,141,390
Derivative spots	**5,526,044**	4,420,167
Other credit commitments	**974,377**	974,377
Inward bills for collection	**356,152**	676,610
Outward bills for collection	**320,428**	430,230
Other contingent accounts	**298,336**	326,693
Confirmed export letters of credit	**88,409**	490,015
Unused commercial letters of credit	**48,957**	44,280
Shipping guarantees issued	**10,033**	32,732
Items held as collateral	**42**	51

Capital Expenditures

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

Significant Elements of Income or Loss

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

Seasonal Aspects

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

Item 6. Market Price, Holders and Dividends

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

1. Market Price

The PNB common shares are listed and traded at the PSE. The high and low sales prices of PNB shares for each quarter for the last two (2) fiscal years are:

	2014		2015		2016	
	High	Low	High	Low	High	Low
Jan ï Mar	87.20	75.56	87.50	76.70	53.90	43.00
Apr ï Jun	94.95	81.50	79.00	62.00		
Jul ï Sep	91.50	85.95	68.90	49.50		
Oct - Dec	88.30	76.50	54.50	49.60		

The trading price of each PNB common share as of March 31, 2016 was ₱52.55.

2. Holders

The Bank has 29,968 shareholders as of March 31, 2016. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares[1/]	Percentage To Total Outstanding Capital Stock
1	PCD Nominee Corporation (Non-Filipino)	116,921,488	9.3601612421
2	Key Landmark Investments, Limited	109,115,864	8.7358212437
3	PCD Nominee Corporation (Filipino)	100,003,914	8.0079384845
4	Solar Holdings Corporation	67,148,224	5.3755576884
5	Caravan Holdings Corporation	67,148,224	5.3755576884
6	True Success Profits Limited	67,148,224	5.3755576884
7	Prima Equities & Investments Corporation	58,754,696	4.7036129774
8	Leadway Holdings, Incorporated	53,470,262	4.2805670928
9	Infinity Equities, Incorporated	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 Limited	25,173,588	2.0152740677
13	Uttermost Success, Limited	24,752,272	1.9815455738
14	Mavelstone International Limited	24,213,463	1.9384111662
15	Kenrock Holdings Corporation	21,301,405	1.7052860761
16	Fil-Care Holdings, Incorporated	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, Limited	18,581,537	1.4875467754

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

3. Dividends

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

PNB has adopted the following 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 dividends for the fiscal years 2014 and 2015.

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

On August 4, 2015, the SEC issued the Certificate of Permit to Offer Securities for Sale authorizing the sale of 423,962,500 common shares of the Bank with a par value of ₱40.00 per share. The Certificate covers the shares to be issued to the shareholders of ABC pursuant to the merger of the Bank and ABC which was approved by the SEC on January 17, 2013. The application for listing of the said shares is pending with the PSE.

5. Computation of Public Ownership

As of March 31, 2016, PNBôs public ownership level is 21.03% which is above the minimum percentage of ten percent (10%) for listed companies, in compliance with the public ownership requirement of the PSE.

B. Description of PNB's Securities

- As of March 31, 2016, PNBôs authorized capital stock amounted to ₱70,000,000,040.00 divided into 1,750,000,001 common shares having a par value of ₱40.00 per share.

- The total number of common shares outstanding as of March 31, 2016 is 1,249,139,678. This includes the 423,962,500 common shares issued relative to the merger of PNB and ABC, subject of the Registration Statement approved by the SEC and the application for listing filed with the PSE.

- As of March 31, 2016, a total of 1,131,961,525 common shares (or 90.62%) are held by Filipino-Private Stockholders while the remaining 117,178,153 common shares (or 9.38%) are held by Foreign-Private Stockholders. PNB has an outstanding capital of ₱ 49,965,587,120.00.

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

- At each meeting of the stockholders, every stockholder entitled to vote shall be 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 transfer books for such meeting or on the record date fixed by the Board of Directors (Section 4.9 of PNBôs Amended By-Laws).

- Section 24 of the Corporation Code of the Philippines provides that ñ*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 in 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*.ò

Item 7. Discussion on Compliance with Leading Practices on Corporate Governance

Please refer to pages 39 to 43 of the Information Statement.

Item 8. Undertaking

The Bank shall, on written request and without charge, provide stockholders a copy of the Annual Report on SEC Form 17-A. Such requests should be directed to the Office of the Corporate Secretary, Philippine National Bank, 9/F PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila, Philippines.

The Bank likewise undertakes to provide without charge a copy of SEC Form 17-Q during the Annual Stockholders' Meeting.

PNB

Office of the Corporate Secretary
Direct Line: 536-0540
Trunk Lines: 891-6040 to 70
Local: 4106

SECRETARY'S CERTIFICATE

I, **MAILA KATRINA Y. ILARDE**, Corporate Secretary of the Philippine National Bank ("PNB"), a universal banking corporation organized and existing under the laws of the Republic of the Philippines, with principal office address at PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City, after having been sworn in accordance with law, do hereby certify and state that:

1. The following are the incumbent directors of PNB:

- Ms. Florencia G. Tarriela
- Mr. Felix Enrico R. Alfiler
- Mr. Florido P. Casuela
- Mr. Leonilo G. Coronel
- Mr. Reynaldo A. Maclang
- Mr. Estelito P. Mendoza
- Mr. Christopher J. Nelson
- Mr. Federico C. Pascual
- Mr. Cecilio K. Pedro
- Mr. Washington Z. Sycip
- Mr. Harry C. Tan
- Mr. Lucio C. Tan
- Mr. Lucio K. Tan, Jr.
- Mr. Michael G. Tan
- Mr. Deogracias N. Vistan

2. The following are the individuals nominated as director for the year 2016-2017:

- Ms. Florencia G. Tarriela
- Mr. Felix Enrico R. Alfiler
- Mr. Florido P. Casuela
- Mr. Edgar A. Cua
- Mr. Leonilo G. Coronel
- Mr. Reynaldo A. Maclang
- Mr. Estelito P. Mendoza
- Mr. Christopher J. Nelson
- Mr. Federico C. Pascual
- Mr. Cecilio K. Pedro
- Mr. Washington Z. Sycip
- Ms. Carmen K. Tan
- Mr. Lucio C. Tan
- Mr. Lucio K. Tan, Jr.
- Mr. Michael G. Tan

3. To the best of my knowledge, none of the above-mentioned directors and nominees are appointed officials or employees of any agency of the government of the Philippines.

IN WITNESS WHEREOF, I have hereunto affixed my signature this April 14, 2016 in Pasay City.

MAILA KATRINA Y. ILARDE
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 22 2016 in Pasay City, affiant exhibited to me her TIN No. 260-890-405.

Doc. No. 254;
Page No. 62;
Book No. V;
Series of 2016.

ATTY. WINLOVE APPLE R. SANDALO-ESPERANZA
Commission No. 15-32; Roll No. 57838
Notary Public for Pasay City until 12/31/16
9th Floor PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
PTR No. 4739888/01-07-16/Pasay City
IBP No. 1022804/01-07-16/Quezon City

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, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013, 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 auditor 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

MAR 2 8 2016

SUBSCRIBED AND SWORN to before me this ____ day of March 2016 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. 53
Page No. 12
Book No. II
Series of 2016.

Notary Public
[illegible] T. RAMIREZ
[illegible], Roll No. 45158
[illegible] Pasay City until 12/31/17
[illegible] Financial Center
[illegible] Macapagal Blvd., Pasay City
PTR No. [illegible]394/01-07-16/Pasay City
IBP No. 1012928/12-14-15/RSM

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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

C O M P A N Y   N A M E

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		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	05/31	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. Nelson C. Reyes		891-6040 to 70	

CONTACT PERSON's ADDRESS

__NOTE 1 :__ In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

__2 :__ All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

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 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2015 and 2014, 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, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 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 40 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 April 30, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5321647, January 4, 2016, Makati City

March 2, 2016

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated		Parent Company	
	December 31			
	2015	2014	**2015**	2014
ASSETS				
Cash and Other Cash Items	**₱15,220,536**	₱14,628,489	**₱12,598,715**	₱13,865,078
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**81,363,444**	105,773,685	**79,203,948**	95,415,467
Due from Other Banks (Note 34)	**18,287,308**	15,591,406	**11,450,573**	5,013,357
Interbank Loans Receivable (Note 8)	**5,800,383**	7,671,437	**5,958,526**	7,671,437
Securities Held Under Agreements to Resell (Notes 8 and 36)	**14,550,000**	–	**14,550,000**	–
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**4,510,545**	17,351,626	**4,492,864**	6,695,950
Available-for-Sale Investments (Note 9)	**68,341,024**	63,091,497	**66,734,752**	55,411,588
Held-to-Maturity Investments (Note 9)	**23,231,997**	22,970,306	**23,137,643**	21,559,631
Loans and Receivables (Notes 10 and 34)	**365,725,146**	316,253,021	**328,300,238**	289,021,394
Property and Equipment (Note 11)	**22,128,464**	19,574,383	**19,144,198**	18,683,415
Investments in Subsidiaries (Note 12)	**–**	–	**23,821,982**	24,102,612
Investment Properties (Notes 13 and 35)	**13,230,005**	20,248,482	**14,666,831**	19,752,903
Deferred Tax Assets (Note 31)	**1,173,575**	1,461,938	**1,031,948**	1,029,423
Intangible Assets (Note 14)	**2,442,878**	2,294,824	**2,346,246**	2,200,102
Goodwill (Note 14)	**13,375,407**	13,375,407	**13,515,765**	13,515,765
Assets of Disposal Group Classified as Held for Sale (Note 37)	**23,526,757**	–	**846,015**	–
Other Assets (Note 15)	**6,780,268**	5,159,331	**5,417,287**	4,178,455
TOTAL ASSETS	**₱679,687,737**	₱625,445,832	**₱627,217,531**	₱578,116,577
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 34)				
Demand	**₱110,029,680**	₱101,561,040	**₱108,667,550**	₱100,322,249
Savings	**315,355,056**	293,201,308	**311,090,518**	284,837,113
Time	**60,552,445**	52,881,409	**50,736,320**	47,287,301
	485,937,181	447,643,757	**470,494,388**	432,446,663
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**135,193**	10,862,025	**135,009**	44,264
Bills and Acceptances Payable (Notes 19, 34 and 36)	**25,752,222**	19,050,058	**24,629,887**	18,526,044
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,875,228**	5,441,349	**5,371,733**	5,035,156
Subordinated Debt (Note 21)	**9,986,427**	9,969,498	**9,986,427**	9,969,498
Income Tax Payable	**134,720**	85,505	**55,180**	70,001
Liabilities of Disposal Group Classified as Held for Sale (Note 37)	**21,452,621**	–	**–**	–
Other Liabilities (Note 22)	**25,658,284**	33,332,758	**17,669,131**	18,629,173
	574,931,876	526,384,950	**528,341,755**	484,720,799
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	**49,965,587**	49,965,587	**49,965,587**	49,965,587
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	**31,331,251**	31,331,251
Surplus Reserves (Notes 25 and 33)	**554,263**	537,620	**554,263**	537,620
Surplus (Note 25)	**24,799,259**	18,702,394	**22,219,098**	16,019,048
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**(3,763,667)**	(2,336,142)	**(3,022,853)**	(2,276,501)
Remeasurement Losses on Retirement Plan (Note 29)	**(2,357,873)**	(2,292,833)	**(2,326,283)**	(2,249,830)
Accumulated Translation Adjustment (Note 25)	**612,468**	(59,854)	**154,713**	68,603
Reserves of Disposal Group Classified as Held for Sale (Note 37)	**593,237**	–	**–**	–
Other Equity Adjustment (Note 12)	**13,959**	–	**–**	–
Parent Company Shares Held by a Subsidiary (Note 25)	**(9,945)**	–	**–**	–
	101,738,539	95,848,023	**98,875,776**	93,395,778
NON-CONTROLLING INTERESTS (Note 12)	**3,017,322**	3,212,859	**–**	–
	104,755,861	99,060,882	**98,875,776**	93,395,778
TOTAL LIABILITIES AND EQUITY	**₱679,687,737**	₱625,445,832	**₱627,217,531**	₱578,116,577

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 34)	**₱17,137,657**	₱15,172,464	₱13,104,584	**₱15,151,263**	₱13,994,793	₱12,558,709
Trading and investment securities (Note 9)	**3,742,036**	2,992,864	3,486,766	**3,705,138**	2,938,727	3,409,591
Deposits with banks and others (Notes 7 and 34)	**785,414**	1,919,443	1,575,450	**596,592**	1,616,415	1,361,825
Interbank loans receivable (Note 8)	**36,746**	19,218	19,852	**36,316**	19,219	18,101
	21,701,853	20,103,989	18,186,652	**19,489,309**	18,569,154	17,348,226
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 34)	**2,980,019**	2,788,400	3,655,381	**2,773,720**	2,614,956	3,569,034
Bills payable and other borrowings (Notes 19, 21 and 34)	**1,029,995**	856,927	1,070,696	**1,003,173**	801,114	1,027,124
	4,010,014	3,645,327	4,726,077	**3,776,893**	3,416,070	4,596,158
NET INTEREST INCOME	**17,691,839**	16,458,662	13,460,575	**15,712,416**	15,153,084	12,752,068
Service fees and commission income (Notes 26 and 34)	**4,312,898**	3,546,449	3,489,065	**3,355,972**	2,872,162	2,611,282
Service fees and commission expense (Note 34)	**716,849**	670,033	750,500	**292,724**	351,287	380,154
NET SERVICE FEES AND COMMISSION INCOME	**3,596,049**	2,876,416	2,738,565	**3,063,248**	2,520,875	2,231,128
Net insurance premiums (Note 27)	**540,464**	408,273	371,391	**–**	–	–
Net insurance benefits and claims (Note 27)	**436,887**	96,138	1,273,133	**–**	–	–
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	**103,577**	312,135	(901,742)	**–**	–	–
OTHER INCOME						
Net gain on sale or exchange of assets (Note 13)	**1,595,518**	1,453,047	518,604	**1,581,385**	1,435,726	496,864
Foreign exchange gains - net (Note 23)	**1,207,840**	1,295,318	1,230,872	**973,680**	1,007,476	1,007,721
Trading and investment securities gains - net (Notes 9 and 34)	**574,321**	1,267,706	4,616,483	**569,778**	1,234,347	4,421,504
Miscellaneous (Notes 28 and 34)	**1,719,759**	2,141,415	1,390,663	**1,759,155**	1,419,590	984,863
TOTAL OPERATING INCOME	**26,488,903**	25,804,699	23,054,020	**23,659,662**	22,771,098	21,894,148
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 29 and 34)	**8,234,957**	7,429,876	5,873,368	**7,173,327**	6,582,719	5,144,506
Taxes and licenses	**1,910,735**	1,826,963	1,758,220	**1,723,421**	1,693,907	1,681,885
Depreciation and amortization (Note 11)	**1,452,221**	1,481,931	1,690,513	**1,305,779**	1,342,210	1,573,934
Occupancy and equipment-related costs (Notes 30 and 34)	**1,430,048**	1,462,540	1,495,136	**1,219,156**	1,257,625	1,298,564
Provision for impairment, credit and other losses (Note 16)	**568,180**	2,264,615	833,584	**94,435**	2,155,199	953,821
Miscellaneous (Notes 28 and 34)	**5,319,544**	4,740,602	5,200,795	**4,911,986**	3,950,882	4,827,552
TOTAL OPERATING EXPENSES	**18,915,685**	19,206,527	16,851,616	**16,428,104**	16,982,542	15,480,262

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
INCOME BEFORE INCOME TAX	**₱7,573,218**	₱6,598,172	₱6,202,404	**₱7,231,558**	₱5,788,556	₱6,413,886
PROVISION FOR INCOME TAX (Note 31)	**1,619,554**	1,367,288	1,151,595	**1,014,865**	1,369,207	1,034,471
NET INCOME FROM CONTINUING OPERATIONS	**5,953,664**	5,230,884	5,050,809	**6,216,693**	4,419,349	5,379,415
NET INCOME FROM DISCONTINUED OPERATIONS (Note 37)	**357,931**	264,161	196,680	**–**	–	–
NET INCOME	**₱6,311,595**	₱5,495,045	₱5,247,489	**₱6,216,693**	₱4,419,349	₱5,379,415
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company	**₱6,113,508**	₱5,358,669	₱5,146,315			
Non-controlling Interests	**198,087**	136,376	101,174			
	₱6,311,595	₱5,495,045	₱5,247,489			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱4.89**	₱4.60	₱4.82			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 32)	**₱4.67**	₱4.42	₱4.67			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2015	2014	2013	**2015**	2014	2013
NET INCOME	**₱6,311,595**	₱5,495,045	₱5,247,489	**₱6,216,693**	₱4,419,349	₱5,379,415
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)	**(824,011)**	1,257,552	(4,412,125)	**(749,211)**	1,115,330	(4,296,682)
Income tax effect (Note 31)	**2,887**	9,059	(464)	**2,859**	9,098	(8,933)
	(821,124)	1,266,611	(4,412,589)	**(746,352)**	1,124,428	(4,305,615)
Accumulated translation adjustment	**823,525**	(368,697)	1,238,778	**86,110**	(156,991)	287,346
	2,401	897,914	(3,173,811)	**(660,242)**	967,437	(4,018,269)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement losses on retirement plan (Note 29)	**(94,267)**	(1,024,067)	(503,721)	**(76,453)**	(986,931)	(489,062)
Income tax effect (Note 31)	**2,277**	9,334	3,253	**–**	–	–
	(91,990)	(1,014,733)	(500,468)	**(76,453)**	(986,931)	(489,062)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(89,589)**	(116,819)	(3,674,279)	**(736,695)**	(19,494)	(4,507,331)
TOTAL COMPREHENSIVE INCOME	**₱6,222,006**	₱5,378,226	₱1,573,210	**₱5,479,998**	₱4,399,855	₱872,084
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱5,886,502**	₱5,238,706	₱1,314,717			
Non-controlling interests	**335,504**	139,520	258,493			
	₱6,222,006	₱5,378,226	₱1,573,210			

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 Loss on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 29)	Accumulated Translation Adjustment (Note 25)	Reserves of a Disposal Group Classified as Held for Sale (Note 37)	Other Equity Adjustment (Note 12)	Parent Company Shares Held by a Subsidiary (Note 25)	Total	Non-controlling Interests (Note 12)	Total Equity
Balance at January 1, 2015	**₱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**
Total comprehensive income (loss) for the year	–	–	–	**6,113,508**	**(809,876)**	**(89,452)**	**672,322**	–	–	–	**5,886,502**	**335,504**	**6,222,006**
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	**(543)**	–	**(543)**	**103,166**	**102,623**
Acquisition of non-controlling interests (Note 12)	–	–	–	–	–	–	–	–	**14,502**	–	**14,502**	**(616,274)**	**(601,772)**
Acquisition of Parent Company shares by a subsidiary	–	–	–	–	–	–	–	–	–	**(9,945)**	**(9,945)**	–	**(9,945)**
Reserves of disposal group classified as held for sale	–	–	–	–	**(617,649)**	**24,412**	–	**593,237**	–	–	–	–	–
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	**(17,933)**	**(17,933)**
Transfer to surplus reserves (Note 33)	–	–	**16,643**	**(16,643)**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2015	**₱49,965,587**	**₱31,331,251**	**₱554,263**	**₱24,799,259**	**(₱3,763,667)**	**(₱2,357,873)**	**₱612,468**	**₱593,237**	**₱13,959**	**(₱9,945)**	**₱101,738,539**	**₱3,017,322**	**₱104,755,861**
Balance at January 1, 2014	₱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 by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(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	₱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 by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,873)	(2,873)
Non-controlling interests arising from a business combination	–	–	–	–	–	–	–	–	–	–	–	2,768,380	2,768,380
Transfer from surplus reserves (Note 33)	–	–	(45,884)	45,884	–	–	–	–	–	–	–	–	–
Disposal of Parent Company shares 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

	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 Loss on Available-for-Sale Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Total Equity**
Balance at January 1, 2015	**₱49,965,587**	**₱31,331,251**	**₱537,620**	**₱16,019,048**	**(₱2,276,501)**	**(₱2,249,830)**	**₱68,603**	**₱93,395,778**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**6,216,693**	**(746,352)**	**(76,453)**	**86,110**	**5,479,998**
Transfer to surplus reserves (Note 33)	**–**	**–**	**16,643**	**(16,643)**	**–**	**–**	**–**	**–**
Balance at December 31, 2015	**₱49,965,587**	**₱31,331,251**	**₱554,263**	**₱22,219,098**	**(₱3,022,853)**	**(₱2,326,283)**	**₱154,713**	**₱98,875,776**
Balance at January 1, 2014	₱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	₱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 (Note 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

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2015	2014	2013	**2015**	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱7,573,218**	₱6,598,172	₱6,202,404	**₱7,231,558**	₱5,788,556	₱6,413,886
Income before income tax from discontinued operations (Note 37)	**402,236**	307,333	227,123	**–**	–	–
Income before income tax	**7,975,454**	6,905,505	6,429,527	**7,231,558**	5,788,556	6,413,886
Adjustments for:						
Net gain on sale or exchange of assets (Note 13)	**(1,595,518)**	(1,453,047)	(518,604)	**(1,581,385)**	(1,435,726)	(496,864)
Depreciation and amortization (Notes 11 and 37)	**1,462,925**	1,495,970	1,705,660	**1,305,779**	1,342,210	1,573,934
Amortization of premium (discount) on investment securities	**(911,967)**	(694,846)	1,166,368	**(872,123)**	1,099,979	1,167,834
Realized trading gain on available-for-sale investments (Notes 9 and 37)	**(782,065)**	(1,174,153)	(4,375,759)	**(756,777)**	(1,128,511)	(4,183,617)
Provision for impairment, credit and other losses (Notes 16 and 37)	**600,945**	2,264,615	833,584	**94,435**	2,155,199	953,821
Loss (gain) on mark-to-market of derivatives (Note 23)	**583,375**	(105,244)	529,159	**583,358**	(105,087)	530,468
Loss on mark-to-market of held for trading securities (Note 9)	**314,836**	233,439	267,643	**314,846**	233,506	267,732
Recoveries on receivable from special purpose vehicle (Note 28)	**(353,000)**	(27,000)	(266,000)	**(353,000)**	(27,000)	(266,000)
Unrealized foreign exchange gain on available-for-sale investments	**(181,328)**	(13,599)	(32,195)	**(176,197)**	(9,993)	(32,195)
Amortization of fair values of HTM reclassified to AFS (Note 9)	**139,372**	124,145	–	**126,531**	102,615	–
Amortization of fair value adjustments	**63,519**	222,245	117,413	**63,519**	222,245	117,413
Unrealized foreign exchange gain (loss) on bills payable and acceptances	**(42,996)**	33,378	(96,001)	**(42,996)**	33,378	(96,001)
Amortization of transaction costs (Notes 17 and 21)	**33,836**	38,600	34,191	**33,836**	38,600	34,191
Unrealized foreign exchange gain on held-to-maturity investments	**(25,082)**	–	–	**–**	–	–
Gain on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (Note 9)	**(210)**	(1,751)	(184,465)	**–**	–	(179,878)
Loss on write-off of software cost (Note 14)	**–**	2,648	–	**–**	852	–
Gain from step-up acquisition (Note 28)	**–**	–	(63,605)	**–**	–	–
Share in net income of an associate (Note 28)	**–**	–	(4,975)	**–**	–	–
Gain from sale of shares in subsidiaries (Note 12)	**–**	–	–	**(66,235)**	(1,917)	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**178,898**	(178,898)	–	**132,596**	(178,898)	–
Financial assets at fair value through profit or loss	**(1,691,607)**	(5,768,722)	(1,963,492)	**1,304,882**	(2,978,696)	2,090,417
Loans and receivables	**(49,881,768)**	(44,553,319)	(40,625,440)	**(38,729,690)**	(35,839,430)	(35,766,254)
Other assets	**238,353**	(3,022,695)	362,874	**666,991**	(2,357,544)	(760,776)
Increase (decrease) in amounts of:						
Financial liabilities at fair value through profit or loss	**2,998,489**	2,787,130	(2,112,749)	**90,745**	(118,819)	(6,279,675)
Deposit liabilities	**38,196,138**	(14,994,164)	80,127,257	**37,950,439**	(16,258,325)	76,186,872
Accrued taxes, interest and other expenses	**595,696**	(82,174)	(14,876)	**336,577**	25,993	(156,016)
Other liabilities	**538,654**	(2,565,604)	8,221,163	**(294,584)**	(3,314,173)	3,152,271
Net cash generated from (used in) operations	**(1,545,051)**	(60,527,541)	49,536,678	**7,363,105**	(52,710,986)	44,271,563
Income taxes paid	**(718,496)**	(899,599)	(1,183,440)	**(516,503)**	(696,006)	(1,033,856)
Net cash provided by (used in) operating activities	**(2,263,547)**	(61,427,140)	48,353,238	**6,846,602**	(53,406,992)	43,237,707

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2015	2014	2013	**2015**	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
Available-for-sale investments	**₱66,348,222**	₱63,379,326	₱145,302,130	**₱60,096,798**	₱56,615,134	₱143,623,926
Investment properties	**4,050,406**	2,849,775	3,021,651	**3,918,919**	2,830,358	2,678,954
Property and equipment (Note 11)	**499,529**	451,212	97,256	**432,469**	457,352	126,782
Investment in shares of a subsidiary (Note 12)	**–**	–	–	**102,623**	–	–
Proceeds from maturities/sale of :						
Available-for-sale investments	**21,848,096**	368,050	–	**21,848,096**	–	–
Held-to-maturity investments	**115,397**	40,000	–	**–**	–	–
Collection of receivables from special purpose vehicle	**353,000**	27,000	266,000	**353,000**	27,000	266,000
Acquisitions of:						
Available-for-sale investments	**(100,418,515)**	(65,693,182)	(141,313,335)	**(92,727,575)**	(59,006,674)	(140,290,305)
Held-to-maturity investments	**(951,321)**	(571,602)	–	**(892,200)**	(571,602)	–
Property and equipment (Note 11)	**(1,907,386)**	(981,458)	(861,312)	**(1,577,147)**	(835,152)	(753,771)
Software cost (Note 14)	**(571,768)**	(384,951)	(118,236)	**(558,372)**	(380,474)	(82,808)
Net cash acquired from merger	**–**	–	64,444,868	**–**	–	53,204,473
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(601,772)**	(10,600,000)	–
Closure of subsidiaries (Note 12)	**–**	–	–	**–**	2,035	(38,267)
Net cash provided by (used in) investing activities	**(10,634,340)**	(515,830)	70,839,022	**(9,605,161)**	(11,462,023)	58,734,984
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of:						
Bills and acceptances payable	**116,889,829**	42,300,489	65,997,725	**112,249,710**	39,296,399	64,736,812
Capital stock	**–**	11,568,119	–	**–**	11,568,119	–
Proceeds from sale of non-controlling interests in subsidiaries (Note 12)	**102,623**	–	–	**–**	–	–
Settlement of:						
Bills and acceptances payable	**(111,096,764)**	(36,475,970)	(68,957,465)	**(107,562,132)**	(34,320,173)	(66,965,983)
Subordinated debt (Note 21)		–	(4,500,000)	**–**	–	(4,500,000)
Acquisition of non-controlling interests in subsidiaries (Note 12)	**(601,772)**	–	–	**–**	–	–
Payments for transaction cost of issuance of shares	**–**	(219,527)	(84,792)	**–**	(219,527)	(84,792)
Dividends paid to non-controlling interests	**(17,933)**	(4,889)	(2,873)	**–**	–	–
Net cash provided by (used in) financing activities	**5,275,983**	17,168,222	(7,547,405)	**4,687,578**	16,324,818	(6,813,963)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,621,904)**	(44,774,748)	111,644,855	**1,929,019**	(48,544,197)	95,158,728
CASH AND CASH EQUIVALENTS AT BEGINNING 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	**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
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**15,220,536**	14,628,489	11,804,746	**12,598,715**	13,865,078	9,700,005
Cash and other cash items from disposal group classified as held for sale (Note 37)	**642,544**	–	–	**–**	–	–
Due from Bangko Sentral ng Pilipinas	**81,363,444**	105,773,685	153,169,330	**79,203,948**	95,415,467	146,079,249
Due from other banks	**18,287,308**	15,591,406	14,881,541	**11,450,573**	5,013,357	6,146,134
Interbank loans receivable (Note 8)	**5,800,383**	7,492,539	8,405,250	**5,912,224**	7,492,539	8,405,250
Securities held under agreements to resell	**14,550,000**	–	–	**14,550,000**	–	–
	₱135,864,215	₱143,486,119	₱188,260,867	**₱123,715,460**	₱121,786,441	₱170,330,638
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱3,881,864**	₱3,387,941	₱4,628,585	**₱3,628,149**	₱3,150,615	₱4,522,239
Interest received	**20,208,489**	22,270,498	17,100,983	**17,952,107**	22,147,995	16,117,367
Dividends received	**22,190**	2,409	3,399	**198,338**	79,744	81,562

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, 2015, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.37% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.80% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares. As of December 31, 2014, 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 were held by various stockholders who issued proxies/special powers of attorney in favor of Director Lucio C. Tan. The remaining 22.22% of the Parent Company's shares were held by other stockholders.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

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 665 and 657 domestic branches as of December 31, 2015 and 2014, respectively.

The Parent Company has the largest overseas network among Philippine banks with 75 and 77 branches, representative offices, remittance centers and subsidiaries as of December 31, 2015 and 2014, 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, banking, leasing, stock brokerage, foreign exchange trading and/or related services.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

Merger with Allied Banking Corporation
The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger which was effected via a share-for-share exchange was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent

Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.9 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 is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations 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 capitalized on their individual strengths and markets.

On April 26, 2013, the Parent Company 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, 2015, the ruling request is still pending with the Law Division of the BIR. The Parent Company 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.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements 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 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
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result 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
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Group and the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity as 'Other equity adjustment'. 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 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 interests
- 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
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities

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 interests' share of changes in equity since the date of business combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2015. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- Philippine Accounting Standards (PAS) 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)

Annual Improvements to PFRSs (2010-2012 cycle)
- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in as Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures – Key Management Personnel*

Annual Improvements to PFRSs (2011-2013 cycle)
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*
- PAS 40, *Investment Property*

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, 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 interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash-Generating Units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interests, 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.

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

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

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

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated statements of financial position.

The Parent Company accounts for any investment to be retained over the disposal group at cost and presents it as part of 'Investment in subsidiaries' in the Parent Company's statement of financial position.

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

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

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

Refer to Note 37 for the detailed disclosure on discontinued operations. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Foreign Currency Translation
The financial statements are presented in Php, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in Php while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances
As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and for foreign currency-denominated income and expenses, at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

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

FCDU and overseas subsidiaries
As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the weighted average exchange rate for the year. Exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. Upon 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 statement of income.

Insurance Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as financial assets or liabilities at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. The options and guarantees within the insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

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 ‘Trading and investment securities gains - net’ except for currency forwards and currency swaps, where fair value changes are included under ‘Foreign exchange gains - net’. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

Designated financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized 'Foreign exchange gains – net' in the consolidated statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'.

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

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from impairment are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

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

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

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as 'Deposit Liabilities', 'Bills and Acceptances Payable', 'Subordinated Debt' and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments

that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

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

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

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

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability

and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities Held Under Agreements to Resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under ‘Provision for impairment, credit and other losses’ in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to ‘Recoveries’ under ‘Miscellaneous income’ in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

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

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

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

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

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 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees

and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Miscellaneous expenses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Life Insurance Contract Liabilities

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 Life Insurance, Inc. (PNB LII). The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations.

Insurance contracts with fixed and guaranteed terms

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date less reinsurance recoveries, using the information available at the time.

Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on PNB LII's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the liability section of the consolidated statement of financial position under 'Other Liabilities - Insurance contract liabilities'.

The aggregate reserve for life policies represents the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the Insurance Commission (IC), subject to the minimum liability adequacy test.

Unit-linked insurance contracts

PNB LII issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

PNB LII's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Since the segregated fund assets belong to the unit-linked policyholders, corresponding segregated fund liabilities are set-up equal to the segregated fund assets less redemptions outside the segregated funds. The segregated fund assets are valued at market price. Changes in the segregated fund assets due to investment earnings or market value fluctuations result in the same corresponding change in the segregated fund liabilities. Such changes in fund value have no effect in the consolidated statement of income.

Collections received from unit-linked policies are separated to segregated fund assets from which PNB LII withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the segregated fund assets are equal to the surrender value of the unit-linked policyholders, and are withdrawable anytime.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by the total number of outstanding units.

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the 'Other Liabilities' section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and IBNR losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the reporting date, whether reported or not, together with the related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract is discharged or cancelled or has expired.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities.

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). Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the consolidated statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. 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

Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company's separate financial statements, investments in subsidiaries are carried at cost less impairment loss, if any.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, 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 using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last months of the year. 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 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other Liabilities' in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other Assets' in the consolidated statement of financial position. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectability of the sales price is reasonably assured.

<u>Expenses</u>
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.

<u>Policy Loans</u>
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.

<u>Reinsurance</u>
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to 'Accounts receivable'.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as ‘Other Liabilities’ in the consolidated statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the ‘Other Liabilities’ in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to ‘Service fees and commission expense’ in the consolidated statement of income. The unamortized acquisition costs are shown as ‘Deferred acquisition costs’ in the assets section of the consolidated statement of financial position.

An impairment review is performed at the end of each reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the period the asset is derecognized.

<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 'Net gain on sale or exchange of assets'.

Foreclosed properties are classified under 'Investment Properties' upon:

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

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

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

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

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

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

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs
Software costs, included in 'Intangible Assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles
Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, intangible assets and other properties acquired
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Investment in subsidiaries
The Parent Company assesses at each reporting date whether there is any indication that its investment in subsidiaries may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

<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 'Property and Equipment' account with the corresponding liability to the lessor included in 'Other Liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

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

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

<u>Residual Value of Leased Assets and Deposits on Finance Leases</u>
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.

<u>Retirement Benefits</u>
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. With respect to investments in foreign subsidiaries, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any. Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

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

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting Date
Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.

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

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

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

'Accumulated Translation Adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e., overseas branches and subsidiaries) to Philippine peso.

'Net Unrealized Gain (Loss) on Available-for-Sale Investments' reserve which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective January 1, 2016
PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating the material items that have different natures or functions
- That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose the fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates.

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.

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.

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. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment in entity associate or joint venture to its interests in subsidiaries.

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.

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. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits – regional market issue regarding discount rate*
- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

Effective January 1, 2018
PFRS 9, *Financial Instruments* (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.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The adoption will also have an effect on the Group's determination of the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) Leases

Operating leases

Group as lessor

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery.

The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases.

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases

Group as lessor

The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) *Financial assets not quoted in an active market*
The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(d) *Embedded derivatives*
Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(e) *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 35).

(f) *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

(g) *Product classification*
The Group classified its unit-linked products as insurance contracts due to the significant insurance risk at issue. All of the Group's unit-linked products are classified and treated as insurance contracts.

(h) *Assessment of control over entities for consolidation*
Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of

the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls Oceanic Holding (BVI) Ltd. (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.

(i) *Assessment of joint control*
The Parent Company has certain joint arrangements with real estate companies for the development of its investment properties into residential/condominium units. In assessing joint control over these investees, the Parent Company assesses whether all the parties collectively control the arrangement. Further, the Parent Company determines the relevant activities of the arrangement and whether decisions around relevant activities require unanimous consent. The Parent Company also considers the scope of decision-making authority of the real estate companies in accordance with their respective contractual arrangements.

(j) *Assets and liabilities of disposal group classified as held for sale*
On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE (Singapore Branch) and for the latter to acquire 51.00% of PNB LII, the life insurance subsidiary of the Parent Company. The disposal is considered to meet the criteria to be classified as held for sale for the following reasons:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over PNBLII;
- PNB LII shares are available for immediate sale and can be sold in its current condition, subject to terms that are usual and customary;
- The actions to complete the sale were initiated and the sale is expected to be completed by 2016.

For more details on the assets and liabilities of disposal group classified as held for sale, refer to Note 37.

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 Special Purpose Vehicle (SPV), respectively.

(b) *Fair values of structured debt instruments and derivatives*
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Notes 5 and 23 for information on the fair values of these instruments.

(c) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 31.

(d) *Fair valuation in business combination*
The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long term in nature, fair values are estimated through the discounted cash flow methodology, using the appropriate market rates (e.g., current lending rates)
- for nonfinancial assets such as property and equipment and investment properties, fair values are determined based on appraisal valuation which follows sales comparison approach and depreciated replacement cost approach
- for deferred tax assets and liabilities, fair values are based on the tax benefit arising from future taxable income from the enlarged operations of the Parent Company

(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, investment properties, other properties acquired and intangibles*
The Parent Company assesses impairment on its investments in subsidiaries 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 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 during the period or in the near future, in which the subsidiary 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 costs to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's property and equipment, investments in subsidiaries, investment properties, goodwill and intangible assets and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15, respectively.

(g) *Impairment of goodwill*
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in value-in-use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Note 14.

(h) Aggregate reserves for life insurance
In determining the aggregate reserves for life policies estimates are made as to the expected number of deaths, illness or injury for each of the years in which PNB LII is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Insurance Code (the Code). The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illness or injury and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6.00% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability.

The carrying value of aggregate reserves for life policies is included in the 'Insurance contract liabilities' disclosed in Notes 22 and 37.

(i) Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

Nonlife insurance contract liabilities are not discounted for the time value of money.
The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Note 22.

(j) Estimated useful lives of property and equipment, investment properties, intangibles and chattel mortgage properties
The Group estimates the useful lives of its property and equipment, investment properties, intangibles and chattel mortgage properties.

This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties, intangibles and chattel mortgage properties.

Refer to Note 2 for the estimated useful lives of property and equipment, investment properties, intangibles and chattel mortgage properties. Refer to Notes 11, 13, 14 and 15 for the carrying values of property and equipment, investment properties, intangibles and chattel mortgage properties, respectively.

4. Financial Risk Management Objectives and Policies

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

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either an ₱8.0 billion increase in risk weighted assets or a ₱1.0 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agreed on the following ten (10) 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/information security risk (includes core banking implementation risk)
10. New regulations risk

Managing the level of these risks as provided for by the Parent Company's Enterprise Risk Management (ERM) framework is critical to its continuing profitability. The Risk Oversight Committee (ROC) of the Parent Company's BOD determines the risk policy and approves the principles of risk management, establishment of limits for all relevant risks, and the risk control procedures. The ROC of the Parent Company is also responsible for the risk management of the Group.

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

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and

- Establishing recommended limits based on the results of its analysis of exposures.

<u>Credit Risk</u>
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).

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 non-performing loans (NPLs)
  f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Parent Company has moved one step further by collecting data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

The Group follows the BOD approved policy on the generic 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			
	2015			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱14,550,000**	**₱14,516,223**	**₱33,777**	**₱14,516,223**
Loans and receivables:				
Receivable from customers*:				
Business loans	**290,095,409**	**251,693,476**	**232,049,711**	**58,045,698**
Consumers	**33,615,950**	**46,755,806**	**15,652,016**	**17,963,934**
GOCCs and National Government Agencies (NGAs)	**23,037,919**	**27,561,404**	**3,941,304**	**19,096,615**
LGUs	**7,792,655**	**1,430,738**	**7,050,998**	**741,657**
Fringe benefits	**552,079**	**829,780**	**246,613**	**305,466**
Unquoted debt securities	**4,245,069**	**3,434,914**	**810,155**	**3,434,914**
Other receivable	**19,101,758**	**8,553,573**	**14,856,651**	**4,245,107**
	₱392,990,839	**₱354,775,914**	**₱274,641,225**	**₱118,349,614**

** Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated			
	2014			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Loans and receivables:				
Receivable from customers*:				
Business loans	₱241,963,174	₱152,970,231	₱180,555,455	₱61,407,719
Consumers	30,254,134	40,458,688	12,791,852	17,462,282
GOCCs and NGAs	20,440,576	222,869	20,226,009	214,567
LGUs	8,396,610	1,058,509	7,686,922	709,688
Fringe benefits	566,901	922,405	197,694	369,207
Unquoted debt securities	8,044,272	3,727,599	4,316,673	3,727,599
Other receivable	18,459,831	3,543,425	15,203,131	3,256,700
	₱328,125,498	₱202,903,726	₱240,977,736	₱87,147,762

** Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent Company			
	2015			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱14,550,000**	**₱14,516,223**	**₱33,777**	**₱14,516,223**
Loans and receivables:				
Receivable from customers:				
Business loans	**277,692,524**	**231,128,278**	**232,161,031**	**45,531,493**
GOCCs and NGAs	**23,037,919**	**27,561,404**	**3,941,304**	**19,096,615**
Consumers	**14,033,577**	**25,514,598**	**6,384,992**	**7,648,585**
LGUs	**7,792,655**	**1,430,738**	**7,050,998**	**741,657**
Fringe benefits	**538,887**	**820,321**	**242,878**	**296,009**
Unquoted debt securities	**4,245,069**	**3,434,914**	**810,155**	**3,434,914**
Other receivable	**13,820,335**	**8,544,352**	**9,584,448**	**4,235,887**
	₱355,710,966	**₱312,950,828**	**₱260,209,583**	**₱95,501,383**

	Parent Company			
	2014			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Loans and receivables:				
Receivables from customers:				
Business loans	₱230,645,666	₱131,308,103	₱181,595,698	₱49,049,968
GOCCs and NGAs	20,440,576	222,869	20,226,009	214,567
Consumers	20,951,487	34,245,851	7,088,873	13,862,614
LGUs	8,396,610	1,058,509	7,686,922	709,688
Fringe benefits	553,393	912,946	193,649	359,744
Unquoted debt securities	7,744,272	3,727,599	4,016,673	3,727,599
Other receivables	12,235,532	3,069,914	9,165,618	3,069,914
	₱300,967,536	₱174,545,791	₱229,973,442	₱70,994,094

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 35 to the financial statements.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For loans and receivables, the Parent Company sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

   For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			
	2015			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱346,480,786**	**₱76,378,062**	**₱98,214,655**	**₱521,073,503**
Asia (excluding the Philippines)	**17,732,943**	**12,884,161**	**14,081,917**	**44,699,021**
Other European Union Countries	**–**	**5,725,103**	**1,640,140**	**7,365,243**
USA and Canada	**776,838**	**957,062**	**5,079,342**	**6,813,242**
United Kingdom	**20,893**	**139,178**	**1,156,311**	**1,316,382**
Middle East	**1,365**	**–**	**12,108**	**13,473**
	₱365,012,825	**₱96,083,566**	**₱120,184,473**	**₱581,280,864**

* *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' and other financial assets booked under 'Other Assets' (Note 15).*

	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
Other European Union Countries	–	2,619,545	1,836,912	4,456,457
USA and Canada	668,259	1,087,170	5,920,686	7,676,115
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.*
** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note 15).*

	Parent Company			
	2015			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱319,220,646**	**₱74,835,244**	**₱94,995,277**	**₱489,051,167**
Asia (excluding the Philippines)	**8,509,086**	**12,883,954**	**9,035,854**	**30,428,894**
Other European Union Countries	**–**	**5,725,103**	**1,639,322**	**7,364,425**
USA and Canada	**569,141**	**862,708**	**4,801,070**	**6,232,919**
United Kingdom	**–**	**58,250**	**814,433**	**872,683**
Middle East	**1,365**	**–**	**12,108**	**13,473**
	₱328,300,238	**₱94,365,259**	**₱111,298,064**	**₱533,963,561**

* *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note 15).*

	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
Other European Union Countries	–	2,619,545	1,804,225	4,423,770
USA and Canada	545,309	1,087,170	3,953,016	5,585,495
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' and other financial assets booked under 'Other Assets' (Note 15).*

c. Concentration by Industry
The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

	Consolidated			
	2015			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱38,776,292**	**₱8,420,062**	**₱24,088,110**	**₱71,284,464**
Electricity, gas and water	**49,526,664**	**1,799,906**	**3,591**	**51,330,161**
Wholesale and retail	**50,575,572**	**–**	**5,579**	**50,581,151**
Manufacturing	**40,697,028**	**30,611**	**27**	**40,727,666**
Transport, storage and communication	**28,872,881**	**1,661**	**599**	**28,875,141**
Public administration and defense	**25,294,475**	**–**	**–**	**25,294,475**
Agriculture, hunting and forestry	**5,996,258**	**–**	**75**	**5,996,333**
Secondary target industry:				
Government	**625,802**	**72,457,525**	**95,913,444**	**168,996,771**
Real estate, renting and business activities	**43,751,147**	**5,488,738**	**27,671**	**49,267,556**
Construction	**11,516,779**	**–**	**371**	**11,517,150**
Others**	**69,379,927**	**7,885,063**	**145,006**	**77,409,996**
	₱365,012,825	**₱96,083,566**	**₱120,184,473**	**₱581,280,864**

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note 15).*

	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
Transport, storage and communication	19,273,964	–	–	19,273,964
Public administration and defense	23,424,634	–	–	23,424,634
Agriculture, hunting and forestry	6,061,813	–	–	6,061,813
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.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note 15).*

	Parent Company			
	2015			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
Primary target industry:				
Financial intermediaries	**₱38,440,318**	**₱8,173,172**	**₱17,409,518**	**₱64,023,008**
Electricity, gas and water	**49,463,182**	**1,799,906**	**3,591**	**51,266,679**
Wholesale and retail	**46,788,392**	**–**	**5,579**	**46,793,971**
Manufacturing	**37,203,799**	**30,611**	**27**	**37,234,437**
Transport, storage and communication	**27,034,887**	**1,661**	**599**	**27,037,147**
Public administration and defense	**25,294,475**	**–**	**–**	**25,294,475**
Agriculture, hunting and forestry	**5,519,770**	**–**	**75**	**5,519,845**
Secondary target industry:				
Government	**625,802**	**71,244,398**	**93,753,948**	**165,624,148**
Real estate, renting and business activities	**36,160,266**	**5,488,738**	**27,671**	**41,676,675**
Construction	**9,793,549**	**–**	**371**	**9,793,920**
Others**	**51,975,798**	**7,626,773**	**96,685**	**59,699,256**
	₱328,300,238	**₱94,365,259**	**₱111,298,064**	**₱533,963,561**

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note 15).*

	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
Transport, storage and communication	17,592,017	–	–	17,592,017
Public administration and defense	23,424,634	–	–	23,424,634
Agriculture, hunting and forestry	5,756,854	–	–	5,756,854
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

* *Loans and receivables exclude residual value of the leased asset.*

** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell' and other financial assets booked under 'Other Assets' (Note*

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 receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade Credit Risk Rating (CRR) System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

<u>Loans and Receivables</u>

The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of ₱15.0 million and above) are defined below:

CRR 1 - Excellent

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

CRR 2 - Super Prime

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

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

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

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

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

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

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

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

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

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

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

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

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

The Parent Company uses credit scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own that is sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2015 and 2014, but net of residual values of leased assets.

	Consolidated			
	2015			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 – Excellent	**₱4,090,408**	**₱–**	**₱–**	**₱4,090,408**
2 - Super Prime	**65,177,554**	**–**	**–**	**65,177,554**
3 - Prime	**55,509,700**	**193**	**–**	**55,509,893**
4 - Very Good	**29,059,432**	**467**	**–**	**29,059,899**
5 - Good	**53,997,893**	**159**	**76,066**	**54,074,118**
6 - Satisfactory	**31,701,037**	**8,355**	**85,648**	**31,795,040**
7 - Average	**19,304,040**	**1,260**	**–**	**19,305,300**
8 - Fair	**24,464,636**	**2,076**	**139,333**	**24,606,045**
9 - Marginal	**9,846,975**	**1,864**	**49,351**	**9,898,190**
10 - Watchlist	**18,884,955**	**89**	**3,000**	**18,888,044**
11 - Special Mention	**2,311,620**	**87,930**	**148,456**	**2,548,006**
12 - Substandard	**613,275**	**191,601**	**647,968**	**1,452,844**
13 – Doubtful	**–**	**26,301**	**1,306,189**	**1,332,490**
14 - Loss	**–**	**1,364,422**	**2,263,739**	**3,628,161**
	314,961,525	**1,684,717**	**4,719,750**	**321,365,992**
Unrated Receivable from Customers				
Business Loans	**15,144,231**	**150,695**	**46,282**	**15,341,208**
Consumers	**7,943,525**	**1,398,624**	**32,199**	**9,374,348**
LGUs	**7,697,189**	**26,597**	**65,424**	**7,789,210**
GOCCs and NGAs	**2,455,069**	**–**	**47,060**	**2,502,129**
Fringe Benefits	**518,923**	**10,725**	**25,994**	**555,642**
	33,758,937	**1,586,641**	**216,959**	**35,562,537**
	₱348,720,462	**₱3,271,358**	**₱4,936,709**	**₱356,928,529**

	Consolidated			
	2014			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable 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 Receivable from Customers				
Business Loans	10,193,630	621,987	1,070,600	11,886,217
Consumers	18,324,466	624,891	161,926	19,111,283
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

	Parent Company			
	2015			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 – Excellent	**₱3,944,861**	**₱–**	**₱–**	**₱3,944,861**
2 - Super Prime	**64,243,898**	**–**	**–**	**64,243,898**
3 - Prime	**54,377,704**	**193**	**–**	**54,377,897**
4 - Very Good	**27,568,487**	**467**	**–**	**27,568,954**
5 - Good	**33,868,924**	**159**	**–**	**33,869,083**
6 - Satisfactory	**23,798,683**	**3,019**	**23,432**	**23,825,134**
7 - Average	**18,649,361**	**1,260**	**–**	**18,650,621**
8 - Fair	**24,060,879**	**2,076**	**139,333**	**24,202,288**
9 - Marginal	**9,751,289**	**1,864**	**49,351**	**9,802,504**
10 - Watchlist	**17,897,858**	**–**	**3,000**	**17,900,858**
11 - Special Mention	**2,262,084**	**32,004**	**32,915**	**2,327,003**
12 - Substandard	**613,275**	**159,680**	**436,856**	**1,209,811**
13 – Doubtful	**–**	**15,218**	**1,025,278**	**1,040,496**
14 - Loss	**–**	**1,364,422**	**2,152,444**	**3,516,866**
	281,037,303	**1,580,362**	**3,862,609**	**286,480,274**
Unrated Receivable from Customers				
Business Loans	**17,735,218**	**150,695**	**46,282**	**17,932,195**
Consumers	**7,871,087**	**1,390,262**	**19,204**	**9,280,553**
LGUs	**7,697,189**	**26,597**	**65,424**	**7,789,210**
GOCCs and NGAs	**2,455,069**	**–**	**47,060**	**2,502,129**
Fringe Benefits	**505,730**	**10,725**	**22,520**	**538,975**
	36,264,293	**1,578,279**	**200,490**	**38,043,062**
	₱317,301,596	**₱3,158,641**	**₱4,063,099**	**₱324,523,336**

	Parent Company			
	2014			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable 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 Receivable from Customers				
Business Loans	9,640,046	621,988	1,070,600	11,332,634
Consumers	18,238,794	619,493	148,461	19,006,748
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

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				
	2015				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱59,704**	**₱10,508**	**₱26,437**	**₱1,685,805**	**₱1,782,454**
Consumers	**172,194**	**95,601**	**238,854**	**944,934**	**1,451,583**
LGUs	–	–	–	**26,597**	**26,597**
GOCCs and NGAs	–	–	–	–	–
Fringe benefits	**904**	**98**	**1,294**	**8,428**	**10,724**
Total	**₱232,802**	**₱106,207**	**₱266,585**	**₱2,665,764**	**₱3,271,358**

	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
Total	₱1,756,248	₱233,031	₱386,110	₱1,340,878	₱3,716,267

	Parent Company				
	2015				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱12,079**	**₱9,841**	**₱26,437**	**₱1,681,269**	**₱1,729,626**
Consumers	**113,519**	**95,452**	**237,789**	**944,934**	**1,391,694**
LGUs	**–**	**–**	**–**	**26,597**	**26,597**
GOCCs and NGAs	**–**	**–**	**–**	**–**	**–**
Fringe benefits	**904**	**98**	**1,294**	**8,428**	**10,724**
Total	**₱126,502**	**₱105,391**	**₱265,520**	**₱2,661,228**	**₱3,158,641**

	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

Trading and Investment Securities and Other Financial Assets
In ensuring quality investment portfolio, the Parent Company uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, net of allowances, excluding receivable from customers, which are monitored using external ratings.

	Consolidated					
	2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱81,363,444**	**₱81,363,444**
Due from other banks	**5,973,964**	**3,770,982**	**7,700,508**	**17,445,454**	**841,854**	**18,287,308**
Interbank loans receivables	**1,814,131**	**3,525,011**	**461,192**	**5,800,334**	**49**	**5,800,383**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**14,550,000**	**14,550,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**3,723,377**	**3,723,377**	**244,837**	**3,968,214**
Equity securities	**–**	**–**	**69**	**69**	**199,853**	**199,922**
Derivative assets[2/]	**12,391**	**10,458**	**35,242**	**58,091**	**123,257**	**181,348**
Private debt securities	**–**	**–**	**113,196**	**113,196**	**30,604**	**143,800**
Designated at FVPL:						
Investment in Unit Investment Trust Funds (UITFs)	**–**	**–**	**–**	**–**	**17,261**	**17,261**
AFS investments:						
Government securities	**1,829,038**	**–**	**28,625,851**	**30,454,889**	**14,805,508**	**45,260,397**
Private debt securities	**3,320,989**	**397,000**	**10,938,756**	**14,656,745**	**7,596,235**	**22,252,980**
Quoted equity securities	**–**	**–**	**203,182**	**203,182**	**450,749**	**653,931**
Unquoted equity securities	**–**	**–**	**508**	**508**	**173,208**	**173,716**
HTM investments						
Government securities	**94,354**	**4,706**	**23,132,937**	**23,231,997**	**–**	**23,231,997**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**75,394**	**75,394**	**550,408**	**625,802**
Others[4/]	**–**	**–**	**–**	**–**	**15,923,079**	**15,923,079**

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2015 and December 31, 2014, financial assets that are unrated are neither past due nor impaired.

	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
Equity securities	284	–	69	353	210,481	210,834
Derivative assets[2/]	1,114	43,274	10,286	54,674	81,877	136,551
Private debt securities	–	–	–	–	218,193	218,193
Designated at FVPL:						
Segregated fund assets	–	10,654,770	–	10,654,770	–	10,654,770
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	89,592	22,920,306
Private debt securities	–	50,000	–	50,000	–	50,000

(Forward)

	Consolidated 2014					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Loans and receivables:						
Unquoted debt securities[3/]	₱–	₱–	₱349,224	₱349,224	₱4,075,781	₱4,425,005
Others[4/]	3,858	1,636	200,966	206,460	15,249,487	15,455,947

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2015 and December 31, 2014, financial assets that are unrated are neither past due nor impaired.

	Parent Company 2015					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱79,203,948**	**₱79,203,948**
Due from other banks	**5,856,006**	**3,770,856**	**981,857**	**10,608,719**	**841,854**	**11,450,573**
Interbank loans receivables	**1,814,131**	**3,525,011**	**461,192**	**5,800,334**	**158,192**	**5,958,526**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**14,550,000**	**14,550,000**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**–**	**–**	**3,723,377**	**3,723,377**	**244,837**	**3,968,214**
Equity securities	**–**	**–**	**69**	**69**	**199,639**	**199,708**
Derivative assets[2/]	**12,228**	**10,415**	**35,242**	**57,885**	**123,257**	**181,142**
Private debt securities	**–**	**–**	**113,197**	**113,197**	**30,603**	**143,800**
AFS investments:						
Government securities	**727,525**	**–**	**28,542,175**	**29,269,700**	**14,805,509**	**44,075,209**
Private debt securities	**3,222,933**	**397,000**	**10,819,417**	**14,439,350**	**7,596,235**	**22,035,585**
Quoted equity securities	**–**	**–**	**–**	**–**	**450,749**	**450,749**
Unquoted equity securities	**–**	**–**	**–**	**–**	**173,209**	**173,209**
HTM investments						
Government securities	**–**	**4,706**	**23,132,937**	**23,137,643**	**–**	**23,137,643**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**75,394**	**75,394**	**550,408**	**625,802**
Others[4/]	**–**	**–**	**–**	**–**	**10,943,494**	**10,943,494**

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2015 and December 31, 2014, 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[5/]	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
Financial assets at FVPL:						
Held-for-trading:						
Government securities	–	–	5,712,101	5,712,101	419,177	6,131,278
Equity securities	–	–	69	69	210,481	210,550
Derivative assets[2/]	1,114	42,652	10,286	54,052	81,877	135,929
Private debt securities	–	–	–	–	218,193	218,193

(Forward)

	Parent Company					
	2014					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
AFS investments:						
Government securities	₱53,909	₱–	₱32,527,143	₱32,581,052	₱1,851,975	₱34,433,027
Private debt securities	533,148	950,699	2,983,073	4,466,920	15,893,523	20,360,443
Quoted equity securities	–	–	–	–	470,608	470,608
Unquoted equity securities	–	–	–	–	147,510	147,510
HTM investments:						
Government securities	–	4,472	21,555,159	21,559,631	–	21,559,631
Loans and receivables:						
Unquoted debt securities[3/]	–	–	49,224	49,224	4,075,782	4,125,006
Others[4/]	–	–	–	–	9,407,337	9,407,337

1/ 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
2/ Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
3/ Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
4/ Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
5/ As of December 31, 2015 and December 31, 2014, 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 singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment
The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

The impairment or credit 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 Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The tables below show the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					
	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	**₱15,220,536**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,220,536**
Due from BSP and other banks	**99,653,689**	**–**	**–**	**–**	**–**	**99,653,689**
Interbank loans receivable	**5,384,320**	**416,335**	**2**	**–**	**–**	**5,800,657**
Securities held under agreements to resell	**14,583,112**	**–**	**–**	**–**	**–**	**14,583,112**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**3,979,182**	**–**	**–**	**–**	**–**	**3,979,182**
Equity securities	**199,922**	**–**	**–**	**–**	**–**	**199,922**
Private debt securities	**143,800**	**–**	**–**	**–**	**–**	**143,800**
Derivative assets:						
Gross contractual receivable	**16,817,945**	**2,059,068**	**28,125**	**41,474**	**348,870**	**19,295,482**
Gross contractual payable	**(16,752,755)**	**(2,040,301)**	**(18,692)**	**(27,122)**	**(275,264)**	**(19,114,134)**
	65,190	**18,767**	**9,433**	**14,352**	**73,606**	**181,348**
Designated at FVPL:						
Investment in UITFs	**17,261**	**–**	**–**	**–**	**–**	**17,261**
AFS investments:						
Government securities	**1,059,295**	**520,629**	**951,709**	**1,001,232**	**56,959,465**	**60,492,330**
Private debt securities	**183,767**	**534,094**	**307,439**	**11,562**	**27,717,072**	**28,753,934**
Equity securities	**–**	**–**	**–**	**–**	**827,647**	**827,647**
HTM investments:						
Government securities	**180,144**	**180,557**	**258,803**	**678,216**	**38,629,314**	**39,927,034**
Loans and receivables:						
Receivables from customers	**66,383,185**	**52,578,247**	**14,540,326**	**22,197,081**	**271,348,146**	**427,046,985**
Unquoted debt securities	**–**	**944**	**7,228**	**76,792**	**4,178,634**	**4,263,598**
Other receivables	**2,726,391**	**573,776**	**1,451,743**	**346,294**	**14,761,243**	**19,859,447**
Other assets	**128,387**	**2,300**	**1,405**	**1,141**	**50,605**	**183,838**
Total financial assets	**₱209,908,181**	**₱54,825,649**	**₱17,528,088**	**₱24,326,670**	**₱414,545,732**	**₱721,134,320**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱110,029,680**	**₱–**	**₱–**	**₱–**	**₱–**	**₱110,029,680**
Savings	**260,880,163**	**25,250,869**	**11,251,179**	**5,732,360**	**13,745,867**	**316,860,438**
Time	**14,063,900**	**9,319,023**	**6,449,528**	**3,815,186**	**27,445,340**	**61,092,977**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**5,543,024**	**2,890,536**	**255,308**	**41,235**	**283,752**	**9,013,855**
Gross contractual receivable	**(5,500,389)**	**(2,829,870)**	**(246,017)**	**(27,122)**	**(275,264)**	**(8,878,662)**
	42,635	**60,666**	**9,291**	**14,113**	**8,488**	**135,193**
Bills and acceptances payable	**4,075,366**	**1,437,194**	**89,661**	**538,023**	**20,204,285**	**26,344,529**
Subordinated debt	**–**	**161,094**	**161,094**	**102,813**	**10,102,813**	**10,527,814**
Accrued interest payable and accrued other expenses payable	**1,019,379**	**158,692**	**17,574**	**23,423**	**1,564,522**	**2,783,590**
Other liabilities	**16,994,824**	**336,090**	**397,086**	**126,790**	**1,432,971**	**19,287,761**
Total financial liabilities	**₱407,105,947**	**₱36,723,628**	**₱18,375,413**	**₱10,352,708**	**₱74,504,286**	**₱547,061,982**

	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	123,894,046	–	–	–	–	123,894,046
Interbank loans receivable	7,406,871	86,457	179,037	–	–	7,672,365
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,858	26,681	252,547	242,633	7,889,921	8,415,640
Equity securities	210,834	–	–	–	–	210,834
Private debt securities	–	846	2,127	5,815	271,404	280,192
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	–	–	–	101,486	1,045,452
Total financial assets	₱210,891,949	₱47,968,611	₱12,599,759	₱18,696,710	₱393,002,541	₱683,159,570
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
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	17,900,338	456,986	300,231	407,896	6,699,582	25,765,033
Total financial liabilities	₱346,183,224	₱45,608,052	₱23,323,019	₱19,874,256	₱85,286,972	₱520,275,523

	Parent Company					
	2015					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1year**	**Total**
Financial Assets						
COCI	**₱12,598,715**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,598,715**
Due from BSP and other banks	**90,656,132**	**–**	**–**	**–**	**–**	**90,656,132**
Interbank loans receivable	**5,508,484**	**441,255**	**9,061**	**–**	**–**	**5,958,800**
Securities held under agreements to resell	**14,583,112**	**–**	**–**	**–**	**–**	**14,583,112**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**3,979,182**	**–**	**–**	**–**	**–**	**3,979,182**
Equity securities	**143,800**	**–**	**–**	**–**	**–**	**143,800**
Private debt securities	**199,708**	**–**	**–**	**–**	**–**	**199,708**
Derivative assets:						
Gross contractual receivable	**15,866,204**	**2,057,068**	**20,125**	**41,474**	**348,870**	**18,333,741**
Gross contractual payable	**(15,801,188)**	**(2,038,302)**	**(10,723)**	**(27,122)**	**(275,264)**	**(18,152,599)**
	65,016	**18,766**	**9,402**	**14,352**	**73,606**	**181,142**
AFS investments:						
Government securities	**909,573**	**369,261**	**752,825**	**620,595**	**56,246,178**	**58,898,432**
Private debt securities	**183,767**	**534,094**	**269,017**	**994**	**27,546,996**	**28,534,868**
Equity securities	**–**	**–**	**–**	**–**	**623,958**	**623,958**
HTM investments:						
Government securities	**180,144**	**180,557**	**258,803**	**614,748**	**38,598,427**	**39,832,679**
Loans and receivables:						
Receivables from customers	**63,179,932**	**50,212,435**	**13,042,482**	**19,528,423**	**244,008,754**	**389,972,026**
Unquoted debt securities	**–**	**944**	**7,228**	**76,792**	**4,178,634**	**4,263,598**
Other receivables	**1,568,082**	**425,558**	**1,345,612**	**140,576**	**11,047,327**	**14,527,155**
Other assets	**96,073**	**2,300**	**1,405**	**1,142**	**34,597**	**135,517**
Total financial assets	**₱193,851,720**	**₱52,185,170**	**₱15,695,835**	**₱20,997,622**	**₱382,358,477**	**₱665,088,824**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱108,667,550**	**₱–**	**₱–**	**₱–**	**₱–**	**₱108,667,550**
Savings	**256,194,773**	**25,250,869**	**11,251,179**	**5,732,360**	**13,745,867**	**312,175,048**
Time	**13,863,388**	**5,855,896**	**4,550,162**	**3,557,448**	**23,433,015**	**51,259,909**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**4,710,062**	**2,655,236**	**20,008**	**41,235**	**283,751**	**7,710,292**
Gross contractual receivable	**(4,667,535)**	**(2,594,639)**	**(10,723)**	**(27,122)**	**(275,264)**	**(7,575,283)**
	42,527	**60,597**	**9,285**	**14,113**	**8,487**	**135,009**
Bills and acceptances payable	**3,035,251**	**1,418,949**	**84,838**	**436,855**	**20,204,285**	**25,180,178**
Subordinated debt	**–**	**161,094**	**161,094**	**102,813**	**10,102,813**	**10,527,814**
Accrued interest payable and accrued other expenses payable	**991,128**	**156,705**	**14,717**	**23,239**	**1,564,522**	**2,750,311**
Other liabilities	**11,541,802**	**423,937**	**165,079**	**148,918**	**662,967**	**12,942,703**
Total financial liabilities	**₱394,336,419**	**₱33,328,047**	**₱16,236,354**	**₱10,015,746**	**₱69,721,956**	**₱523,638,522**

	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	100,438,546	–	–	–	–	100,438,546
Interbank loans receivable	7,406,871	86,457	179,037	–	–	7,672,365
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,858	26,681	252,547	242,633	7,889,921	8,415,640
Equity securities	210,550	–	–	–	–	210,550
Private debt securities	–	846	2,127	5,815	271,404	280,192
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

(Forward)

	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
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	–	–	–	86,154	1,029,276
Total financial assets	₱182,857,909	₱46,796,515	₱11,704,017	₱17,592,900	₱352,154,165	₱611,105,506
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	11,082,696	18,526,044
Subordinated debt	56,750	461,094	161,094	322,188	10,497,311	11,498,437
Accrued interest payable and accrued other expenses payable	788,677	133,596	1,108	1,944	1,555,418	2,480,743
Other liabilities	12,023,817	423,937	165,079	148,918	471,054	13,232,805
Total financial liabilities	₱327,428,921	₱41,893,401	₱19,929,047	₱19,197,850	₱73,079,716	₱481,528,935

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk as a primary risk measurement tool. It adopts both the Parametric Value-at-Risk (VaR) methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

Objectives and limitations of the VaR methodology
The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Backtesting
The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate back testing procedures. Back testing is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. 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. 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 2015 and 2014, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

Stress Testing
To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

VaR limits
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 29, 2015	**₱1.99**	**₱296.83**	**₱8.81**	**₱307.63**
Average Daily	**3.67**	**306.33**	**8.99**	**318.99**
Highest	**14.52**	**420.79**	**10.50**	**392.93**
Lowest	**0.92**	**144.96**	**7.19**	**170.35**

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

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*

The table below shows the interest rate VaR for AFS investments (in millions):

	2015	2014
End of year	**₱1,303.05**	₱812.47
Average Daily	**1,249.75**	1,416.60
Highest	**1,444.14**	2,631.36
Lowest	**797.87**	812.47

Structural Market Risk

Non-trading Market Risk
Interest rate risk
The Parent Company seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

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

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

For risk management purposes, the loan accounts are assessed based on next repricing date thus as an example if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Parent Company uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Parent Company's repricing gap. The repricing gap covering the one year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company's BOD sets a limit on the level of EaR exposure tolerable to the Parent Company. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company

	Consolidated					
	2015					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱23,068,982**	**₱2,139,755**	**₱441,737**	**₱414,746**	**₱226,955**	**₱26,292,175**
Interbank loans receivable	**5,251,490**	**158,192**	**390,702**	**–**	**–**	**5,800,384**
Receivable from customers and other receivables - gross**	**119,503,109**	**54,698,330**	**7,568,053**	**2,524,222**	**51,382,112**	**235,675,826**
Total financial assets	**₱147,823,581**	**₱56,996,277**	**₱8,400,492**	**₱2,938,968**	**₱51,609,067**	**₱267,768,385**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱82,042,319**	**₱26,460,116**	**₱18,737,481**	**₱19,104,851**	**₱12,364,766**	**₱158,709,533**
Time	**19,329,798**	**8,793,128**	**6,358,168**	**3,958,490**	**3,098,634**	**41,538,218**
Bills and acceptances payable	**3,850,446**	**1,080,637**	**1,006,011**	**1,140,959**	**18,674,168**	**25,752,221**
Total financial liabilities	**₱105,222,563**	**₱36,333,881**	**₱26,101,660**	**₱24,204,300**	**₱34,137,568**	**₱225,999,972**
Repricing gap	**₱42,601,018**	**₱20,662,396**	**(₱17,701,168)**	**(₱21,265,332)**	**₱17,471,499**	**₱41,768,413**
Cumulative gap	**42,601,018**	**63,263,414**	**45,562,246**	**24,296,914**	**41,768,413**	**–**

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets.*

	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.*
** *Receivable from customers excludes residual value of leased assets.*

	Parent Company					
	2015					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱17,271,237**	**₱–**	**₱–**	**₱24,707**	**₱–**	**₱17,295,944**
Interbank loans receivable	**5,409,633**	**158,192**	**390,702**	**–**	**–**	**5,958,527**
Receivable from customers and other receivables - gross**	**119,503,109**	**54,698,330**	**7,568,053**	**2,524,222**	**51,382,112**	**235,675,826**
Total financial assets	**₱142,183,979**	**₱54,856,522**	**₱7,958,755**	**₱2,548,929**	**₱51,382,112**	**₱258,930,297**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱78,666,283**	**₱26,460,116**	**₱18,737,481**	**₱19,104,851**	**₱12,364,766**	**₱155,333,497**
Time	**15,232,475**	**5,339,910**	**4,446,307**	**3,721,070**	**2,982,331**	**31,722,093**
Bills and acceptances payable	**3,257,332**	**351,318**	**479,587**	**283,413**	**20,258,236**	**24,629,886**
Total financial liabilities	**₱97,156,090**	**₱32,151,344**	**₱23,663,375**	**₱23,109,334**	**₱35,605,333**	**₱211,685,476**
Repricing gap	**₱45,027,889**	**₱22,705,178**	**(₱15,704,620)**	**(₱20,560,405)**	**₱15,776,779**	**₱47,244,821**
Cumulative gap	**45,027,889**	**67,733,067**	**52,028,447**	**31,468,042**	**47,244,821**	**–**

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable 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.*
** *Receivable from customers excludes residual value of leased assets.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2015 and 2014:

	Consolidated			
	2015		2014	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱358,163**	**₱358,163**	₱248,104	₱248,104
-50bps	**(358,163)**	**(358,163)**	(248,104)	(248,104)
+100bps	**716,326**	**716,326**	496,208	496,208
-100bps	**(716,326)**	**(716,326)**	(496,208)	(496,208)

	Parent Company			
	2015		2014	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱371,372**	**₱371,372**	₱233,555	₱233,555
-50bps	**(371,372)**	**(371,372)**	(233,555)	(233,555)
+100bps	**742,744**	**742,744**	467,111	467,111
-100bps	**(742,744)**	**(742,744)**	(467,111)	(467,111)

As one of the long-term goals in the risk management process, the Parent Company has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated		
	2015		
	USD	**Others***	**Total**
Assets			
COCI and due from BSP	**₱258,919**	**₱219,728**	**₱478,647**
Due from other banks	**6,933,845**	**9,466,865**	**16,400,710**
Interbank loans receivable	**673,317**	**1,006,287**	**1,679,604**
Loans and receivables	**14,467,955**	**6,681,557**	**21,149,512**
AFS investments	**525,369**	**926,685**	**1,452,054**
Other assets	**598,340**	**657,472**	**1,255,812**
Total assets	**23,457,745**	**18,958,594**	**42,416,339**
Liabilities			
Deposit liabilities	**7,690,547**	**4,892,062**	**12,582,609**
Derivative liabilities	**–**	**169**	**169**
Bills and acceptances payable	**3,430,079**	**258,265**	**3,688,344**
Accrued interest payable	**1,588,835**	**30,411**	**1,619,246**
Other liabilities	**857,501**	**554,743**	**1,412,244**
Total liabilities	**13,566,962**	**5,735,650**	**19,302,612**
Net Exposure	**₱9,890,783**	**₱13,222,944**	**₱23,113,727**

* *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		
	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	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 AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

	Parent Company		
	2015		
	USD	**Others***	**Total**
Assets			
COCI and due from BSP	**₱240,534**	**₱209,548**	**₱450,082**
Due from other banks	**3,150,831**	**7,252,392**	**10,403,223**
Interbank loans receivable	**673,317**	**1,006,287**	**1,679,604**
Loans and receivables	**13,308,152**	**268,445**	**13,576,597**
AFS investments	**483,277**	**845,757**	**1,329,034**
Other assets	**154,937**	**39,730**	**194,667**
Total assets	**18,011,048**	**9,622,159**	**27,633,207**
Liabilities			
Deposit liabilities	**2,081,030**	**2,665,794**	**4,746,824**
Derivative liabilities	**–**	**169**	**169**
Bills and acceptances payable	**3,168,703**	**109,284**	**3,277,987**
Accrued interest payable	**1,584,752**	**16,401**	**1,601,153**
Other liabilities	**143,346**	**201,555**	**344,901**
Total liabilities	**6,977,831**	**2,993,203**	**9,971,034**
Net Exposure	**₱11,033,217**	**₱6,628,956**	**₱17,662,173**

* *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	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.*

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 ₱1.2 billion (sold) and ₱3.9 billion (bought) as of December 31, 2015 and ₱313.0 million (sold) and ₱3.5 billion (bought) as of December 31, 2014.

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2015 and 2014 follow:

	2015	2014
US dollar - Philippine peso exchange rate	**₱47.06 to USD1.00**	₱44.72 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, 2015 and 2014:

	2015			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱157,493**	**₱162,747**	**₱105,499**	**₱110,332**
-1.00%	**(157,493)**	**(162,747)**	**(105,499)**	**(110,332)**

	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)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

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 policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management
PNB LII's and PNB Gen's capital management framework is aligned with the statutory requirements imposed by the IC. To ensure compliance with these externally imposed capital requirements, it is PNB LII's and PNB Gen's policy to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Insurance Code, PNB LII and PNB Gen should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively; and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under the Section 203 of the Insurance Code, are free from liens and encumbrances.

The Group manages the capital of its subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as the IC, SEC and PSE. PNB LII has fully complied with the relevant capital requirements having estimated statutory networth of ₱1.1 billion and ₱782.6 million as of December 31, 2015 and 2014, respectively, and RBC ratio of 187.08% and 145.29% as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, PNB Gen has estimated statutory networth amounting to ₱120.6 million and ₱585.5 million, respectively. PNB Gen's RBC ratio as of December 31, 2015 and 2014 is 9.52% and 30.23%, respectively.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35.00%. Should this event occur, 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.

PNB Gen expects its financial performance to improve in 2016 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.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC. Further, the IC has yet to finalize the new RBC Computation under the New Insurance Code.

5. **Fair Value Measurement**

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices. While unquoted equity securities are carried at their original cost less impairment if any, since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Investments in UITFs classified as financial assets designated as at FVPL - Fair values are based on Net Asset Value per share (NAVps).

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value. Where the repricing frequency is beyond three months, the fair value of floating rate loans is determined using the discounted cash flow methodology. The discount rate used in estimating the fair value of loans and receivables is 2.75% in 2015 and 2.50% in 2014 for peso-denominated receivables. For foreign currency-denominated receivables, discount rate used is 1.50% in 2015 and 2014.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long-term maturity and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 2.66% to 3.77% and from 1.00% to 4.17% as of December 31, 2015 and 2014, 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					
	2015					
	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	**12/29/2015**	**₱3,968,214**	**₱2,636,413**	**₱1,331,801**	**₱–**	**₱3,968,214**
Equity securities	**12/29/2015**	**199,922**	**199,752**	**170**	**–**	**199,922**
Derivative assets	**12/29/2015**	**181,348**	**–**	**118,016**	**63,332**	**181,348**
Private debt securities	**12/29/2015**	**143,800**	**143,800**	**–**	**–**	**143,800**
Designated at FVPL:						
Investment in UITFs	**12/29/2015**	**17,261**	**–**	**17,261**	**–**	**17,261**
AFS investments:						
Government securities	**12/29/2015**	**45,260,397**	**33,499,835**	**11,760,562**	**–**	**45,260,397**
Private debt securities	**12/29/2015**	**22,252,980**	**21,614,280**	**638,700**	**–**	**22,252,980**
Equity securities*	**12/29/2015**	**653,931**	**560,272**	**93,659**	**–**	**653,931**
Assets of disposal group classified as held for sale:						
Financial assets at FVPL:						
Segregated fund assets	**12/29/2015**	**13,634,687**	**7,854,450**	**–**	**5,780,237**	**13,634,687**
AFS investments						
Government securities	**12/29/2015**	**2,485,902**	**2,485,902**	**–**	**–**	**2,485,902**
Private debt securities	**12/29/2015**	**3,604,065**	**3,604,065**	**–**	**–**	**3,604,065**
Equity securities*	**12/29/2015**	**1,378,686**	**1,378,686**	**–**	**–**	**1,378,686**
		₱93,781,193	**₱73,977,455**	**₱13,960,169**	**₱5,843,569**	**₱93,781,193**
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVPL:						
Derivative liabilities	**12/29/2015**	**₱135,193**	**₱–**	**₱135,193**	**₱–**	**₱135,193**
Liabilities of disposal group classified as held for sale						
Financial liabilities at FVPL:						
Segregated fund liabilities**	**12/29/2015**	**13,634,687**	**7,854,450**	**–**	**5,780,237**	**13,634,687**
		₱13,769,880	**₱7,854,450**	**₱135,193**	**₱5,780,237**	**₱13,769,880**
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	**12/29/2015**	**₱23,231,997**	**₱18,729,222**	**₱5,887,982**	**₱–**	**₱24,617,204**
Loans and receivables:						
Receivables from customers	**12/29/2015**	**349,176,265**	**–**	**–**	**360,136,440**	**360,136,440**
Unquoted debt securities	**12/29/2015**	**625,802**	**–**	**–**	**648,046**	**648,046**
Assets of disposal group classified as held for sale:						
HTM investments	**12/29/2015**	**1,269,398**	**1,336,814**	**–**	**–**	**1,336,814**
		₱374,303,462	**₱20,066,036**	**₱5,887,982**	**₱360,784,486**	**₱386,738,504**
Nonfinancial Assets						
Investment properties:***						
Land	**2015**	**₱11,432,653**	**₱–**	**₱–**	**₱21,012,616**	**₱21,012,616**
Buildings and improvements	**2015**	**1,797,352**	**–**	**–**	**3,584,585**	**3,584,585**
		₱13,230,005	**₱–**	**₱–**	**₱24,597,201**	**₱24,597,201**

(Forward)

	Consolidated					
	2015					
	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	**12/29/2015**	**₱60,552,445**	**₱–**	**₱–**	**₱60,762,710**	**₱60,762,710**
Bills payable	**12/29/2015**	**25,407,406**	**–**	**–**	**25,033,940**	**25,033,940**
Subordinated debt	**12/29/2015**	**9,986,427**	**–**	**–**	**10,241,659**	**10,241,659**
		₱95,946,278	**₱–**	**₱–**	**₱96,038,309**	**₱96,038,309**

* *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					
	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
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
Private debt securities	12/29/2014	218,193	218,193	–	–	218,193
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 properties:***						
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*

	Parent Company					
	2015					
	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	**12/29/2015**	**₱3,968,214**	**₱2,636,413**	**₱1,331,801**	**₱–**	**₱3,968,214**
Equity securities	**12/29/2015**	**199,708**	**199,708**	**–**	**–**	**199,708**
Derivative assets	**12/29/2015**	**181,142**	**–**	**117,810**	**63,332**	**181,142**
Private debt securities	**12/29/2015**	**143,800**	**143,800**	**–**	**–**	**143,800**
AFS investments:						
Government securities	**12/29/2015**	**44,075,209**	**32,314,647**	**11,760,562**	**–**	**44,075,209**
Private debt securities	**12/29/2015**	**22,035,585**	**21,396,885**	**638,700**	**–**	**22,035,585**
Equity securities*	**12/29/2015**	**450,749**	**357,090**	**93,659**	**–**	**450,749**
		₱71,054,407	**₱57,048,543**	**₱13,942,532**	**₱63,332**	**₱71,054,407**
Liabilities measured at fair value:						
Financial Liabilities						
Derivative liabilities	**12/29/2015**	**₱135,009**	**₱–**	**₱135,009**	**₱–**	**₱135,009**
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	**12/29/2015**	**₱23,137,643**	**₱18,634,867**	**₱5,887,982**	**₱–**	**₱24,522,849**
Loans and Receivables:						
Receivables from customers	**12/29/2015**	**316,730,942**	**–**	**–**	**325,917,837**	**325,917,837**
Unquoted debt securities	**12/29/2015**	**625,802**	**–**	**–**	**648,046**	**648,046**
		₱340,494,387	**₱18,634,867**	**₱5,887,982**	**₱326,565,883**	**₱351,088,732**
Nonfinancial Assets						
Investment properties:**						
Land	**2015**	**₱13,045,427**	**₱–**	**₱–**	**₱21,290,540**	**₱21,290,540**
Buildings and improvements	**2015**	**1,621,404**	**–**	**–**	**2,912,787**	**2,912,787**
		₱14,666,831	**₱–**	**₱–**	**₱24,203,327**	**₱24,203,327**
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	**12/29/2015**	**₱50,736,320**	**₱–**	**₱–**	**₱50,946,585**	**₱50,946,585**
Bills payable	**12/29/2015**	**24,285,071**	**–**	**–**	**23,904,966**	**23,904,966**
Subordinated debt	**12/29/2015**	**9,986,427**	**–**	**–**	**10,241,659**	**10,241,659**
		₱85,007,818	**₱–**	**₱–**	**₱85,093,210**	**₱85,093,210**

* *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					
	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
Equity securities	12/29/2014	210,550	210,550	–	–	210,550
Derivative assets	12/29/2014	135,929	–	64,769	71,160	135,929
Private debt securities	12/29/2014	218,193	218,193	–	–	218,193
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 properties:**						
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*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy. For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values is determined based on published NAVps as of reporting date.

As of December 31, 2015 and 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		Parent Company	
	2015	2014	**2015**	2014
Financial assets				
Balance at beginning of year	**₱5,339,628**	₱5,545,916	**₱71,160**	₱165,863
Fair value changes recognized in profit or loss	**503,941**	(206,288)	**(7,828)**	(94,703)
Balance at end of year	**₱5,843,569**	₱5,339,628	**₱63,332**	₱71,160
Financial liabilities				
Balance at beginning of year	**₱5,268,468**	₱5,380,053	**₱–**	₱–
Fair value changes recognized in profit or loss	**511,769**	(111,585)	**–**	–
Balance at end of year	**₱5,780,237**	₱5,268,468	**₱–**	₱–

Equity and/or Credit-Linked Notes are shown as 'Segregated Fund Assets' under 'Financial Assets at FVPL' as of December 31, 2014 and under 'Assets of Disposal Group Classified as Held for Sale' as of December 31, 2015 (Note 37).

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 and 2014 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:

		2015	
Structured Investments	**Significant Unobservable Input**	**Range of Input**	**Sensitivity of the Input to Fair Value***
Peso-denominated	**Bank CDS Levels**	**47.28 - 92.37 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462**
Dollar-denominated	**Bank CDS Levels**	**40.179 - 76.344 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217**

* *The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

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 fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

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

2015			
Structured Investments	**Significant Observable Input**	**Range of Input**	**Sensitivity of the Input to Fair Value***
Peso-denominated	**PHP IRS (3Y)**	**180.25 - 355.00 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462**
Dollar-denominated	**ROP CDS (5Y)**	**126.15 - 193.33 bps**	**50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617**

* *The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

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 fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the 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:

<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 "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 ₱500 to ₱30,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and

Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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

Business segment information of the Group follows:

	2015					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	**₱2,396,903**	**₱11,614,344**	**₱3,177,360**	**₱295,629**	**₱207,603**	**₱17,691,839**
Inter-segment	**4,287,196**	**(4,915,106)**	**627,910**	**–**	**–**	**–**
Net interest margin after inter-segment transactions	**6,684,099**	**6,699,238**	**3,805,270**	**295,629**	**207,603**	**17,691,839**
Other income	**1,413,242**	**4,103,083**	**2,195,452**	**2,573,959**	**(334,936)**	**9,950,800**
Segment revenue	**8,097,341**	**10,802,321**	**6,000,722**	**2,869,588**	**(127,333)**	**27,642,639**
Other expenses	**(7,808,713)**	**(935,445)**	**(118,411)**	**(3,776,559)**	**(361,962)**	**(13,001,090)**
Segment result	**₱288,628**	**₱9,866,876**	**₱5,882,311**	**(₱906,971)**	**(₱489,295)**	**14,641,549**
Unallocated expenses						**(7,068,331)**
Net income before income tax						**7,573,218**
Income tax						**(1,619,554)**
Net income from continuing operations						**5,953,664**
Net income from discontinued operations						**357,931**
Non-controlling interests						**(198,087)**
Net income for the year attributable to equity holders of the Parent Company						**₱6,113,508**
Other segment information						
Capital expenditures	**₱925,062**	**₱10,405**	**₱1,780**	**₱371,649**	**₱–**	**₱1,308,896**
Unallocated capital expenditure						**589,574**
Total capital expenditure						**₱1,898,470**
Depreciation and amortization	**₱558,046**	**₱132,559**	**₱6,440**	**₱634,780**	**₱50,668**	**₱1,382,493**
Unallocated depreciation and amortization						**69,728**
Total depreciation and amortization						**₱1,452,221**
Provision for (reversal of) impairment, credit and other losses	**₱301,499**	**(₱261,596)**	**(₱11,910)**	**₱228,892**	**₱311,295**	**₱568,180**

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

	2014 (As Restated – Note 37)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,306,979	₱11,521,156	₱2,987,955	₱206,786	₱435,786	₱16,458,662
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	206,786	435,786	16,458,662
Other income	2,026,365	4,062,801	1,122,246	2,946,655	(45,859)	10,112,208
Segment revenue	7,261,729	12,152,228	3,613,545	3,153,441	389,927	26,570,870
Other expenses	(7,131,047)	(3,677,796)	(217,934)	(2,158,368)	(628,280)	(13,813,425)
Segment result	₱130,682	₱8,474,432	₱3,395,611	₱995,073	(₱238,353)	12,757,445
Unallocated expenses						(6,159,273)
Net income before income tax						6,598,172
Income tax						(1,367,288)
Net income from continuing operations						5,230,884

(Forward)

	2014 (As Restated – Note 37)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net income from discontinued operations						₱264,161
Non-controlling interests						(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	₱720,041	₱276,170	₱1,253,346
Unallocated depreciation and amortization						228,585
Total depreciation and amortization						₱1,481,931
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 37)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱648,331	₱9,659,791	₱2,435,438	₱241,706	₱475,309	₱13,460,575
Inter-segment	3,654,832	(2,860,774)	(794,058)	–	–	–
Net interest margin after inter-segment transactions	4,303,163	6,799,017	1,641,380	241,706	475,309	13,460,575
Other income	621,494	2,197,096	7,078,608	2,371,953	(657,048)	11,612,103
Segment revenue	4,924,657	8,996,113	8,719,988	2,613,659	(181,739)	25,072,678
Other expenses	(5,277,205)	(4,575,313)	(443,992)	(3,863,781)	(184,617)	(14,344,908)
Segment result	(₱352,548)	₱4,420,800	₱8,275,996	(₱1,250,122)	(₱366,356)	10,727,770
Unallocated expenses						(4,530,341)
Net income before share in net income of an associate and income tax						6,197,429
Share in net income of an associate						4,975
Net income before income tax						6,202,404
Income tax						(1,151,595)
Net income from continuing operations						5,050,809
Net income from discontinued operations						196,680
Non-controlling interests						(101,174)
Net income for the year attributable to equity holders of the Parent Company						₱5,146,315
Other segment information						
Capital expenditures	₱904,371	₱20,728	₱723	₱313,597	₱–	₱1,239,419
Depreciation and amortization	₱182,520	₱206,627	₱7,352	₱726,850	₱330,812	₱1,454,161
Unallocated depreciation and amortization						236,352
Total depreciation and amortization						₱1,690,513
Provision for impairment, credit and other losses	₱294,772	₱156,417	₱–	₱71,811	₱310,584	₱833,584

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

	As of December 31, 2015					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱70,842,231**	**₱278,330,998**	**₱192,617,758**	**₱273,895,363**	**(₱138,148,929)**	**₱677,537,421**
Unallocated assets						**2,150,316**
Total assets						**₱679,687,737**
Segment liabilities	**₱328,801,574**	**₱51,043,083**	**₱50,222,776**	**₱189,688,815**	**(₱137,664,873)**	**₱482,091,375**
Unallocated liabilities						**92,840,501**
Total liabilities						**₱574,931,876**

** 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, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets		**Liabilities**		**Capital Expenditure**	
	2015	2014	**2015**	2014	**2015**	2014
Philippines	**₱325,295,519**	₱328,307,665	**₱550,838,120**	₱506,034,141	**₱1,879,019**	₱1,338,759
USA and Canada	**17,493,794**	1,354,970	**3,661,259**	3,639,786	**19,284**	1,472
Asia (excluding Philippines)	**5,348,679**	1,153,246	**20,378,499**	15,572,732	**167**	14,897
United Kingdom	**9,535**	198,206	**53,998**	1,138,291	**–**	11,281
	₱348,147,527	₱331,014,087	**₱574,931,876**	₱526,384,950	**₱1,898,470**	₱1,366,409

	Credit Commitments		**External Revenues**		
	2015	2014	**2015**	2014	2013
Philippines	**₱16,083,883**	₱15,661,774	**₱25,580,852**	₱24,650,375	₱23,193,352
USA and Canada	**796**	467	**598,662**	534,838	531,803
Asia (excluding Philippines)	**465,026**	8,104	**1,308,540**	1,184,773	1,169,644
United Kingdom	**–**	–	**154,585**	200,884	148,592
Other European Union Countries	**–**	–	**–**	–	29,287
	₱16,549,705	₱15,670,345	**₱27,642,639**	₱26,570,870	₱25,072,678

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1 . Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

As of December 31, 2015 and 2014, 8.69% and 35.54%, respectively, of the Group's Due from BSP are placed under the special deposit account (SDA) with BSP. In 2015, 2014 and 2013, those SDAs bear interest at annual interest rates ranging from 2.00% to 2.50%, from 2.00% to 2.50% and from 2.00% to 3.00%, respectively.

As of December 31, 2015 and 2014, 7.32% and 29.35%, respectively, of the Parent Company's Due from BSP are placed under the SDA with the BSP. In 2015, 2014 and 2013, those SDAs bear interest at annual interest rates ranging from 2.00% to 2.50%, from 2.00% to 2.50% and from 2.00% to 3.00%, respectively.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

The Group's interbank loans receivables include foreign currency-denominated placements amounting to ₱5.8 billion as of December 31, 2015 and peso and foreign currency-denominated placements amounting to ₱1.5 billion and ₱6.2 billion, respectively, as of December 31, 2014.

The Group's peso-denominated interbank loans receivables bear interest ranging from 2.56% to 3.19% in 2015, from 3.00% to 3.19% in 2014 and nil in 2013, and from 0.01% to 0.35%, from 0.08% to 0.25%, from 0.04% to 1.15% for foreign currency-denominated placements in 2015, 2014 and 2013, respectively. The Parent Company's peso-denominated interbank loans receivables bear interest ranging from 2.56% to 3.19% in 2015, from 3.00% to 3.19% in 2014 and nil in 2013, and from 0.03% to 0.35%, from 0.08% to 0.25%, from 0.04% to 1.15% for foreign currency-denominated placements in 2015, 2014 and 2013, respectively.

The amount of interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Interbank loans receivable	**₱5,800,383**	₱7,671,437	**₱5,958,526**	₱7,671,437
Less: Interbank loans receivable not considered as cash and cash equivalents	–	178,898	**46,302**	178,898
	₱5,800,383	₱7,492,539	**₱5,912,224**	₱7,492,539

Securities held under agreements to resell are peso-denominated placements with a carrying value of ₱14.6 billion as of December 31, 2015. The Group and the Parent Company's peso-denominated securities held under agreements to resell bear interest of 4.00% in 2015. As of December 31, 2015, the fair value of treasury bills pledged under these agreements amount to ₱14.5 billion (Note 36).

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Financial assets at FVPL	**₱4,510,545**	₱17,351,626	**₱4,492,864**	₱6,695,950
AFS investments	**68,341,024**	63,091,497	**66,734,752**	55,411,588
HTM investments	**23,231,997**	22,970,306	**23,137,643**	21,559,631
	₱96,083,566	₱103,413,429	**₱94,365,259**	₱83,667,169

Financial Assets at FVPL
This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Held-for-trading:				
Government securities	**₱3,968,214**	₱6,131,278	**₱3,968,214**	₱6,131,278
Equity securities	**199,922**	210,834	**199,708**	210,550
Derivative assets (Notes 23 and 36)	**181,348**	136,551	**181,142**	135,929
Private debt securities	**143,800**	218,193	**143,800**	218,193
	4,493,284	6,696,856	**4,492,864**	6,695,950
Designated at FVPL:				
Investment in UITFs	**17,261**	–	**–**	–
Segregated fund assets (Notes 18 and 37)	**–**	10,654,770	**–**	–
	₱4,510,545	₱17,351,626	**₱4,492,864**	₱6,695,950

As of December 31, 2015, 2014 and 2013, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱261.5 million and ₱216.2 million and ₱237.1 million, respectively.

The carrying amount of equity securities includes unrealized loss of ₱53.3 million, ₱17.2 million and ₱30.5 million as of December 31, 2015, 2014 and 2013, respectively, for the Group and unrealized loss of ₱53.4 million, ₱17.3 million and ₱30.6 million as of December 31, 2015, 2014 and 2013, respectively, for the Parent Company.

In 2015, 2014 and 2013, the nominal interest rates of government securities range from 2.13% to 10.63%, from 2.75% to 8.88% and from 3.25% to 8.38%, respectively.

In 2015, 2014 and 2013, the nominal interest rates of private debt securities range from 4.80% to 7.38%, from 4.25% to 7.38% and from 3.88% 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 (Note 37).

On March 15, 2005 and June 17, 2005, the IC approved PNB LII's license to sell single-pay and regular-pay unit-linked insurance products, respectively.

Segregated fund assets and the corresponding segregated fund liabilities are designated as financial assets and liabilities at FVPL since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The equity of each policyholder in the segregated fund assets is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated funds.

As of December 31, 2014, the segregated fund assets consist of peso and dollar funds amounting to ₱8.7 billion. In 2015, the segregated funds were reclassified to 'Assets of disposal group classified as held for sale' (Note 37). 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.
True North (Launched in 2015)	A fund invested in a 5-year UBS Note linked to UBS Multi Asset Portfolio T5 Index (the "UBS MAP T5") issued by UBS A.G.. It provides a minimum redemption value equivalent to 90.00% of the PHP equivalent principal amount, if held to maturity, and provided that no credit default event occurs on UBS A.G.

<u>AFS Investments</u>
This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
AFS investments:				
Government securities (Notes 19 and 33)	**₱45,260,397**	₱37,145,450	**₱44,075,209**	₱34,433,027
Private debt securities	**22,252,980**	23,708,156	**22,035,585**	20,360,443
Equity securities - net of allowance for impairment losses (Note 16)				
Quoted	**653,931**	2,074,200	**450,749**	470,608
Unquoted	**173,716**	163,691	**173,209**	147,510
	₱68,341,024	₱63,091,497	**₱66,734,752**	₱55,411,588

The Group and the Parent Company recognized impairment losses on equity securities amounting to ₱0.2 million, ₱1.4 million and nil in 2015, 2014 and 2013, respectively (Note 16).

The movements in net unrealized loss on AFS investments of the Group are as follows:

	Consolidated								
	2015			2014			2013		
	Parent Company	**NCI**	**Total**	Parent Company	NCI	Total	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱2,336,142)**	**₱179,878**	**(₱2,156,264)**	(₱3,581,865)	₱158,990	(₱3,422,875)	₱1,037,252	₱–	₱1,037,252
Acquired from business combination	–	–	–	–	–	–	–	(47,538)	(47,538)
Changes in fair values of AFS investments	**(1,433,417)**	**(16,194)**	**(1,449,611)**	2,286,623	19,514	2,306,137	(243,270)	206,904	(36,366)
Provision for impairment (Note 16)	**26,442**	**6,553**	**32,995**	1,423	–	1,423	–	–	–
Realized gains (Note 37)	**(777,890)**	**(4,175)**	**(782,065)**	(1,171,221)	(2,932)	(1,174,153)	(4,375,383)	(376)	(4,375,759)
Amortization of net unrealized loss on AFS investments reclassified as HTM*	**136,804**	**2,568**	**139,372**	119,839	4,306	124,145	–	–	–
Effect of disposal group classified as held for sale (Note 37)	**617,649**	**–**	**617,649**	–	–	–	–	–	–
	(1,430,412)	**(11,248)**	**(1,441,660)**	1,236,664	20,888	1,257,552	(4,618,653)	206,528	(4,412,125)
Income tax effect (Note 31)	**2,887**	**–**	**2,887**	9,059	–	9,059	(464)	–	(464)
Balance at end of year	**(₱3,763,667)**	**₱168,630**	**(₱3,595,037)**	(₱2,336,142)	₱179,878	(₱2,156,264)	(₱3,581,865)	₱158,990	(₱3,422,875)

* *Presented as part of 'Interest income on trading and investment securities'.*

The changes in the net unrealized loss on AFS investments of the Parent Company follow:

	Parent Company		
	2015	2014	2013
Balance at the beginning of the year	**(₱2,276,501)**	(₱3,400,929)	₱904,686
Changes in fair values of AFS investments	**(119,195)**	2,139,803	(113,065)
Provision for impairment	**230**	1,423	–
Realized gains	**(756,777)**	(1,128,511)	(4,183,617)
Amortization of net unrealized loss on AFS investments reclassified as HTM*	**126,531**	102,615	–
	(749,211)	1,115,330	(4,296,682)
Income tax effect (Note 31)	**2,859**	9,098	(8,933)
Balance at end of year	**(₱3,022,853)**	(₱2,276,501)	(₱3,400,929)

* *Presented as part of 'Interest income on trading and investment securities'.*

As of December 31, 2015 and 2014, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with foreign banks amounted to ₱8.5 billion (Note 19). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

Included in the Group's AFS investments are pledged securities for the Surety Bond with face value amount of ₱800.0 million issued by PNB Gen (Note 35). As of December 31, 2015 and 2014, the carrying value of these pledged securities amounted to ₱873.0 million and ₱903.9 million, respectively.

<u>HTM Investments</u>
As of December 31, 2015, HTM investments of the Group and the Parent Company comprise of government securities amounting to ₱23.2 billion and ₱23.1 billion, respectively.

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, 2015 and 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 ₱7.5 billion and ₱8.9 billion, respectively (Note 19).

Reclassification of Financial Assets
On March 3 and March 5, 2014, the Group reclassified certain AFS investment securities, which were previously classified as HTM investments, with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification 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, 2015, the carrying values and fair values of reclassified AFS investment securities amount to ₱21.3 billion and ₱23.1 billion, respectively, for the Group and ₱20.2 billion and ₱21.7 billion, respectively, for the Parent Company. In 2015, had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group and the Parent Company in the statement of comprehensive income amounts to ₱0.8 billion.

As of December 31, 2014, the carrying values and fair values of reclassified AFS investment securities amount to ₱22.4 billion and ₱24.0 billion, respectively, for the Group and ₱21.0 billion and ₱22.5 billion, respectively, for the Parent Company. In 2014, had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been have been recognized by the Group and the Parent Company in the statements of comprehensive income amount to ₱1.6 billion and ₱1.5 billion, respectively.

Interest Income on Trading and Investment Securities
This account consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated – Note 37)	2013 (As Restated – Note 37)	**2015**	2014	2013
AFS investments	**₱2,443,660**	₱1,953,437	₱2,833,035	**₱2,407,634**	₱1,968,228	₱2,755,886
HTM investments	**925,334**	794,541	–	**924,462**	725,613	–
Financial assets at FVPL	**373,042**	244,886	648,203	**373,042**	244,886	648,202
Derivatives	–	–	5,528	–	–	5,503
	₱3,742,036	₱2,992,864	₱3,486,766	**₱3,705,138**	₱2,938,727	₱3,409,591

Effective interest rates range from 1.03% to 5.62%, from 2.58% to 5.62% and from 1.62% to 5.79% in 2015, 2014 and 2013, respectively, for peso-denominated AFS investments. Effective interest rates range from 1.10% to 5.39%, from 2.06% to 5.83% and from 1.28% to 5.90% in 2015, 2014 and 2013, respectively, for foreign currency-denominated AFS investments.

HTM investments bear effective annual interest rates ranging from 3.60% to 5.64% in 2015 and 2014.

Trading and Investment Securities Gains - net

This account consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated – Note 37)	2013 (As Restated – Note 37)	**2015**	2014	2013
Financial assets at FVPL:						
Held-for-trading	**(₱175,371)**	₱197,224	₱214,322	**(₱175,290)**	₱196,597	₱214,322
Designated at FVPL	**210**	1,751	79,955	**–**	–	(16,192)
AFS investments	**761,191**	1,159,492	4,374,009	**756,777**	1,128,511	4,183,617
Financial liabilities at FVPL:						
Designated at FVPL	**–**	–	104,510	**–**	–	196,070
Derivative financial instruments (Note 23)	**(11,709)**	(90,761)	(156,313)	**(11,709)**	(90,761)	(156,313)
	₱574,321	₱1,267,706	₱4,616,483	**₱569,778**	₱1,234,347	₱4,421,504

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Receivable from customers:				
Loans and discounts	**₱333,910,923**	₱279,256,983	**₱305,051,911**	₱261,796,590
Customers' liabilities on letters of credit and trust receipts	**10,501,665**	11,233,400	**10,162,498**	10,910,584
Credit card receivables	**5,363,750**	4,390,966	**5,363,750**	4,390,966
Bills purchased (Note 22)	**3,832,905**	4,878,682	**3,498,652**	4,292,300
Lease contracts receivable (Note 30)	**3,686,791**	3,324,277	**101,709**	103,720
Customers' liabilities on acceptances (Note 19)	**344,816**	361,505	**344,816**	361,505
	357,640,850	303,445,813	**324,523,336**	281,855,665
Less unearned and other deferred income	**1,834,517**	1,261,386	**1,427,774**	867,933
	355,806,333	302,184,427	**323,095,562**	280,987,732
Unquoted debt securities	**4,245,069**	8,044,272	**4,245,069**	7,744,272
Other receivables:				
Accounts receivable	**8,212,190**	8,993,706	**3,102,573**	3,127,060
Sales contract receivables	**5,491,409**	4,267,338	**5,487,416**	4,184,697
Accrued interest receivable	**4,968,236**	4,756,699	**4,829,204**	4,533,985
Miscellaneous	**429,923**	442,088	**401,142**	389,790
	19,101,758	18,459,831	**13,820,335**	12,235,532
	379,153,160	328,688,530	**341,160,966**	300,967,536
Less allowance for credit losses (Note 16)	**13,428,014**	12,435,509	**12,860,728**	11,946,142
	₱365,725,146	₱316,253,021	**₱328,300,238**	₱289,021,394

Below is the reconciliation of loans and receivables as to classes:

	Consolidated 2015							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	₱274,314,706	₱22,920,494	₱7,804,678	₱28,398,408	₱472,637	₱–	₱–	₱333,910,923
Customers' liabilities on letters of credit and trust receipts	10,501,665	–	–	–	–	–	–	10,501,665
Credit card receivables	59,732	–	–	5,224,371	79,647	–	–	5,363,750
Bills purchased (Note 22)	3,142,231	690,674	–	–	–	–	–	3,832,905
Lease contracts receivable (Note 30)	3,686,791	–	–	–	–	–	–	3,686,791
Customers' liabilities on acceptances (Note 19)	344,816	–	–	–	–	–	–	344,816
	292,049,941	23,611,168	7,804,678	33,622,779	552,284	–	–	357,640,850
Less unearned and other deferred income	1,242,211	573,249	12,023	6,829	205	–	–	1,834,517
	290,807,730	23,037,919	7,792,655	33,615,950	552,079	–	–	355,806,333
Unquoted debt securities	–	–	–	–	–	4,245,069	–	4,245,069
Other receivables:								
Accounts receivable	–	–	–	–	–	–	8,212,190	8,212,190
Sales contract receivables	–	–	–	–	–	–	5,491,409	5,491,409
Accrued interest receivable	–	–	–	–	–	–	4,968,236	4,968,236
Miscellaneous	–	–	–	–	–	–	429,923	429,923
	290,807,730	23,037,919	7,792,655	33,615,950	552,079	4,245,069	19,101,758	379,153,160
Less allowance for credit losses (Note 16)	5,186,186	159,047	148,602	1,113,167	23,066	3,619,267	3,178,679	13,428,014
	₱285,621,544	₱22,878,872	₱7,644,053	₱32,502,783	₱529,013	₱625,802	₱15,923,079	₱365,725,146

	Consolidated 2014							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱224,312,212	₱20,089,224	₱8,410,900	₱25,938,669	₱505,978	₱–	₱–	₱279,256,983
Customers' liabilities on letters of credit and trust receipts	11,233,400	–	–	–	–	–	–	11,233,400
Credit card receivables	68,455	–	–	4,261,332	61,179	–	–	4,390,966
Bills purchased (Note 22)	4,527,330	351,352	–	–	–	–	–	4,878,682
Lease contracts receivable (Note 30)	3,323,512	–	–	765	–	–	–	3,324,277
Customers' liabilities on acceptances (Note 19)	361,505	–	–	–	–	–	–	361,505
	243,826,414	20,440,576	8,410,900	30,200,766	567,157	–	–	303,445,813
Less unearned and other deferred income	1,300,208	–	14,290	(53,368)	256	–	–	1,261,386
	242,526,206	20,440,576	8,396,610	30,254,134	566,901	–	–	302,184,427
Unquoted debt securities	–	–	–	–	–	8,044,272	–	8,044,272
Other receivables:								
Accounts receivable	–	–	–	–	–	–	8,993,706	8,993,706
Sales contract receivables	–	–	–	–	–	–	4,267,338	4,267,338
Accrued interest receivable	–	–	–	–	–	–	4,756,699	4,756,699
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

	Parent Company 2015							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱265,051,259**	**₱22,920,494**	**₱7,804,678**	**₱8,816,035**	**₱459,445**	**₱–**	**₱–**	**₱305,051,911**
Customers' liabilities on letters of credit and trust receipts	**10,162,498**	**–**	**–**	**–**	**–**	**–**	**–**	**10,162,498**
Credit card receivables	**59,732**	**–**	**–**	**5,224,371**	**79,647**	**–**	**–**	**5,363,750**
Bills purchased (Note 22)	**2,807,978**	**690,674**	**–**	**–**	**–**	**–**	**–**	**3,498,652**
Lease contracts receivable (Note 30)	**101,709**	**–**	**–**	**–**	**–**	**–**	**–**	**101,709**
Customers' liabilities on acceptances (Note 19)	**344,816**	**–**	**–**	**–**	**–**	**–**	**–**	**344,816**
	278,527,992	**23,611,168**	**7,804,678**	**14,040,406**	**539,092**	**–**	**–**	**324,523,336**
Less unearned and other deferred income	**835,468**	**573,249**	**12,023**	**6,829**	**205**	**–**	**–**	**1,427,774**
	277,692,524	**23,037,919**	**7,792,655**	**14,033,577**	**538,887**	**–**	**–**	**323,095,562**
Unquoted debt securities	**–**	**–**	**–**	**–**	**–**	**4,245,069**	**–**	**4,245,069**
Other receivables:								
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**3,102,573**	**3,102,573**
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**5,487,416**	**5,487,416**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**4,829,204**	**4,829,204**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**401,142**	**401,142**
	277,692,524	**23,037,919**	**7,792,655**	**14,033,577**	**538,887**	**4,245,069**	**13,820,335**	**341,160,966**
Less allowance for credit losses (Note 16)	**5,038,887**	**159,047**	**148,602**	**995,020**	**23,064**	**3,619,267**	**2,876,841**	**12,860,728**
	₱272,653,637	**₱22,878,872**	**₱7,644,053**	**₱13,038,557**	**₱515,823**	**₱625,802**	**₱10,943,494**	**₱328,300,238**

	Parent Company 2014							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱216,170,658	₱20,089,224	₱8,410,900	₱16,633,338	₱492,470	₱–	₱–	₱261,796,590
Customers' liabilities on letters of credit and trust receipts	10,910,584	–	–	–	–	–	–	10,910,584
Credit card receivables	68,455	–	–	4,261,332	61,179	–	–	4,390,966
Bills purchased (Note 22)	3,940,948	351,352	–	–	–	–	–	4,292,300
Lease contracts receivable (Note 30)	103,720	–	–	–	–	–	–	103,720
Customers' liabilities on acceptances (Note 19)	361,505	–	–	–	–	–	–	361,505
	231,555,870	20,440,576	8,410,900	20,894,670	553,649	–	–	281,855,665
Less unearned and other deferred income	910,204	–	14,290	(56,817)	256	–	–	867,933
	230,645,666	20,440,576	8,396,610	20,951,487	553,393	–	–	280,987,732
Unquoted debt securities	–	–	–	–	–	7,744,272	–	7,744,272
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,127,060	3,127,060
Sales contract receivables	–	–	–	–	–	–	4,184,697	4,184,697
Accrued interest receivable	–	–	–	–	–	–	4,533,985	4,533,985
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

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 'Loans and discounts' and 'Accrued interest receivable') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

As of December 31, 2015 and 2014, the balance of these receivables amounted to ₱3.7 billion and ₱3.6 billion while the transferred liabilities (included under 'Bills payable to BSP and local banks' - Note 19 and 'Accrued interest payable' - Note 20) amounted to ₱3.4 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, 2015 and 2014. The remaining 40.00% equity ownership of the Parent Company in Maybank was sold in June 2000.

Unquoted debt instruments
Unquoted debt instruments include the zero-coupon notes received by the Parent Company from SPV Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2015 and 2014, the notes are carried at their recoverable values (Note 35).

Finance lease receivable
An analysis of the Group and the Parent Company's finance lease receivables is presented as follows:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Minimum lease payments				
Due within one year	**₱1,428,529**	₱1,332,271	**₱17,909**	₱14,120
Due beyond one year but not over five years	**1,498,041**	1,370,474	**35,900**	31,100
Due beyond five years	**47,900**	58,500	**47,900**	58,500
	2,974,470	2,761,245	**101,709**	103,720
Residual value of leased equipment				
Due within one year	**225,590**	138,019	–	–
Due beyond one year but not over five years	**486,731**	425,013	–	–
	712,321	563,032	–	–
Gross investment in finance lease receivables	**₱3,686,791**	₱3,324,277	**₱101,709**	₱103,720

Interest Income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
Receivable from customers and sales contract receivables	**₱17,074,179**	₱14,650,909	₱12,888,135	**₱15,092,695**	₱13,491,902	₱12,358,412
Unquoted debt securities	**63,478**	521,555	216,449	**58,568**	502,891	200,297
	₱17,137,657	₱15,172,464	₱13,104,584	**₱15,151,263**	₱13,994,793	₱12,558,709

As of December 31, 2015 and 2014, 82.84% and 75.65%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2015 and 2014, 76.18% and 75.67%, respectively, of the total receivable from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.10% to 7.00% in 2015, from 2.51% to 9.00% in 2014 and from 4.80% to 9.00% in 2013 for foreign currency-denominated receivables, and from 0.50% to 15.25% in 2015, from 0.03% to 23.04% in 2014 and 0.30% to 24.40% in 2013 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.30% to 21.00%, from 5.05% to 21.00% and from 4.50% to 21.00% in 2015, 2014 and 2013, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱217.0 million in 2015, ₱274.8 million in 2014 and ₱289.1 million in 2013 (Note 16).

BSP Reporting

An industry sector analysis of the Group's and the Parent Company's receivable from customers before taking into account the unearned and other deferred income and allowance for credit losses is shown below.

	Consolidated				Parent Company			
	2015		2014		**2015**		2014	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Wholesale and retail	**₱51,740,591**	**14.47**	₱44,259,825	14.59	**₱47,900,547**	**14.76**	₱40,978,531	14.54
Electricity, gas and water	**49,944,409**	**13.96**	43,111,698	14.21	**49,873,733**	**15.37**	43,093,083	15.29
Manufacturing	**42,115,959**	**11.78**	40,789,519	13.44	**38,252,329**	**11.79**	37,209,179	13.20
Financial intermediaries	**38,910,047**	**10.88**	37,940,739	12.50	**38,565,876**	**11.88**	39,537,227	14.03
Transport, storage and communication	**29,358,316**	**8.21**	19,342,572	6.38	**27,136,991**	**8.36**	17,615,089	6.25
Public administration and defense	**26,128,861**	**7.31**	23,464,016	7.73	**26,128,860**	**8.05**	23,464,016	8.32
Agriculture, hunting and forestry	**6,211,092**	**1.74**	4,343,522	1.43	**5,690,508**	**1.76**	4,031,492	1.43
Secondary target industry:								
Real estate, renting and business activities	**45,723,378**	**12.78**	39,672,249	13.07	**38,240,191**	**11.78**	32,141,232	11.40
Construction	**11,697,215**	**3.27**	8,508,366	2.80	**9,898,467**	**3.05**	7,235,094	2.57
Others	**55,810,982**	**15.60**	42,013,307	13.85	**42,835,834**	**13.20**	36,550,722	12.97
	₱357,640,850	**100.00**	₱303,445,813	100.00	**₱324,523,336**	**100.00**	₱281,855,665	100.00

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

	Consolidated				Parent Company			
	2015		2014		**2015**		2014	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱57,028,872**	**15.94**	₱68,910,935	22.71	**₱42,625,055**	**13.13**	₱57,372,084	20.36
Chattel mortgage	**17,162,402**	**4.80**	10,341,429	3.41	**10,723,203**	**3.30**	9,054,565	3.21
Bank deposit hold-out	**1,924,828**	**0.54**	6,336,908	2.09	**1,924,828**	**0.59**	3,815,052	1.35
Shares of stocks	**889,340**	**0.25**	35,776	0.01	**694,769**	**0.22**	35,776	0.01
Others	**30,352,753**	**8.49**	39,354,446	12.97	**26,431,424**	**8.15**	36,933,777	13.10
	107,358,195	**30.02**	124,979,494	41.19	**82,399,279**	**25.39**	107,211,254	38.04
Unsecured	**250,282,655**	**69.98**	178,466,319	58.81	**242,124,057**	**74.61**	174,644,411	61.96
	₱357,640,850	**100.00**	₱303,445,813	100.00	**₱324,523,336**	**100.00**	₱281,855,665	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.

NPL of the Parent Company as to secured and unsecured follow:

	2015	2014
Secured	**₱5,888,561**	₱6,960,228
Unsecured	**3,090,858**	2,960,524
	₱8,979,419	₱9,920,752

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 twenty percent (20.00%) 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, 2015 and 2014, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱9.0 billion and ₱9.9 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱8.1 billion and ₱7.3 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2015 and 2014, gross and net NPL ratios of the Parent Company were 2.61% and 3.40%, and 0.25%% and 0.92%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2015 amount to ₱1.6 billion. Restructured loans of the Group and the Parent Company as of December 31, 2014 amount to ₱1.8 billion and ₱1.7 billion, respectively.

11. **Property and Equipment**

The composition of and movements in property and equipment follow:

	Consolidated						
	2015						
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Long-term Leasehold Land**	**Construction In-progress**	**Leasehold Improvements**	**Total**
Cost							
Balance at beginning of year	**₱13,294,729**	**₱6,716,569**	**₱4,027,169**	**₱536,081**	**₱238,083**	**₱702,604**	**₱25,515,235**
Additions/transfers	**2,259,224**	**217,072**	**1,082,544**	**–**	**431,635**	**175,953**	**4,166,428**
Disposals/transfers/others	**(1,187)**	**(41,086)**	**(382,562)**	**–**	**(328,352)**	**(24,033)**	**(777,220)**
Cumulative translation adjustment	**–**	**1,863**	**1,697**	**17,907**	**–**	**594**	**22,061**
Effect of disposal group classified as held for sale (Note 37)	**–**	**–**	**(42,134)**	**–**	**–**	**(14,066)**	**(56,200)**
Balance at end of year	**15,552,766**	**6,894,418**	**4,686,714**	**553,988**	**341,366**	**841,052**	**28,870,304**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**–**	**2,362,174**	**2,925,285**	**9,456**	**–**	**414,431**	**5,711,346**
Depreciation and amortization	**–**	**234,400**	**479,662**	**5,030**	**–**	**122,275**	**841,367**
Disposals/transfers/others	**–**	**43,901**	**(282,785)**	**–**	**–**	**(17,486)**	**(256,370)**
Cumulative translation adjustment	**–**	**1,470**	**345**	**9,109**	**–**	**150**	**11,074**
Effect of disposal group classified as held for sale (Note 37)	**–**	**–**	**(16,563)**	**–**	**–**	**(10,091)**	**(26,654)**
Balance at end of year	**–**	**2,641,945**	**3,105,944**	**23,595**	**–**	**509,279**	**6,280,763**
Allowance for Impairment Losses (Note 16)	**351,373**	**109,704**	**–**	**–**	**–**	**–**	**461,077**
Net Book Value at End of Year	**₱15,201,393**	**₱4,142,769**	**₱1,580,770**	**₱530,393**	**₱341,366**	**₱331,773**	**₱22,128,464**

	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/transfers	977	206,944	455,678	–	210,172	107,687	981,458
Disposals/transfers/others	(41,854)	37,807	(293,417)	1,104	(304,777)	(5,134)	(606,271)
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
Disposals/transfers/others	–	11,355	(234,539)	65	–	(4,385)	(227,504)
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

	Parent Company					
	2015					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Construction In-progress**	**Leasehold Improvements**	**Total**
Cost						
Balance at beginning of year	**₱13,292,296**	**₱6,653,863**	**₱3,377,862**	**₱238,083**	**₱595,174**	**₱24,157,278**
Additions/transfers	**89,806**	**217,072**	**780,849**	**431,635**	**147,591**	**1,666,953**
Disposals/transfers/others	**(1,187)**	**(39,510)**	**(222,528)**	**(328,352)**	**(16,542)**	**(608,119)**
Balance at end of year	**13,380,915**	**6,831,425**	**3,936,183**	**341,366**	**726,223**	**25,216,112**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**2,341,778**	**2,563,525**	**–**	**340,107**	**5,245,410**
Depreciation and amortization	**–**	**233,174**	**371,448**	**–**	**105,920**	**710,542**
Disposals/transfers/others	**–**	**46,721**	**(187,033)**	**–**	**(8,427)**	**(148,739)**
Balance at end of year	**–**	**2,621,673**	**2,747,940**	**–**	**437,600**	**5,807,213**
Allowance for Impairment Losses (Note 16)	**154,997**	**109,704**	**–**	**–**	**–**	**264,701**
Net Book Value at End of Year	**₱13,225,918**	**₱4,100,048**	**₱1,188,243**	**₱341,366**	**₱288,623**	**₱19,144,198**

	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
Disposals/transfers/others	(41,854)	42,116	(257,306)	(304,777)	(10,146)	(571,967)
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
Disposals/transfers/others	–	12,701	(196,732)	–	(5,221)	(189,252)
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

In 2014, the Group was mandated by the BSP to change the method of accounting for land and buildings classified as ‘Property and equipment’ from revaluation model to cost model in accordance with BSP Circular No. 520, issued on March 20, 2006, which requires Philippine banks to account for their premises using the cost model under PAS 16.

The Group has previously measured land and buildings using the revaluation model as set out in PAS 16, whereby after initial recognition, these assets were re-measured at fair value at the date of revaluation less any subsequent accumulated impairment losses for land and less subsequent accumulated depreciation and any subsequent accumulated impairment losses for buildings.

Under the cost model, land will be measured at cost less any accumulated impairment losses and buildings will be measured at cost less accumulated depreciation and any accumulated impairment losses. Management used the deemed cost approach in determining the initial costs of the land and building. The Parent Company used the 2002 market values as the deemed cost which was the amount approved by the Monetary Board as part of the Parent Company’s rehabilitation plan (Note 25).

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 ₱548.9 million and ₱425.3 million, as of December 31, 2015 and 2014, respectively.

Gain on disposal of property and equipment for the year 2015, 2014 and 2013 amounted to ₱7.7 million, ₱12.1 million, and ₱1.9 million, respectively, for the Group and ₱3.7 million, ₱12.4 million and ₱1.3 million, respectively, for the Parent Company (Note 13).
Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2015	2014	2013	**2015**	2014	2013
Continuing operations:						
Depreciation						
Property and equipment	**₱830,663**	₱795,065	₱873,710	**₱710,542**	₱674,965	₱768,157
Investment properties (Note 13)	**162,097**	190,727	286,923	**149,309**	183,382	279,147
Chattel mortgage	**35,285**	23,455	62,721	**33,748**	23,281	62,721
Amortization - Intangible assets (Note 14)	**424,176**	472,684	467,159	**412,180**	460,582	463,909
	1,452,221	1,481,931	1,690,513	**1,305,779**	1,342,210	1,573,934
Discontinued operations:						
Property and Equipment (Note 37)	**10,704**	14,039	15,147	–	–	–
	₱1,462,925	₱1,495,970	₱1,705,660	**₱1,305,779**	₱1,342,210	₱1,573,934

Certain property and equipment of the Parent Company with carrying amount of ₱180.8 million and ₱117.8 million are temporarily idle as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014 property and equipment of the Parent Company with gross carrying amounts of ₱1.0 billion and ₱1.2 billion, respectively, are fully depreciated but are still being used.

12. Investments in Subsidiaries

The consolidated financial statements of the Group include:

				Percentage of Ownership			
		Country of	Functional	2015		2014	
Subsidiaries	**Nature of Business**	**Incorporation**	**Currency**	**Direct**	**Indirect**	Direct	Indirect
PNB SB*	Banking	Philippines	Php	**100.00**	–	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB General Insurers Co., Inc. (PNB Gen) [(a)]	Insurance	- do -	Php	**65.75**	**34.25**	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	–
PNB Corporation – Guam	Remittance	USA	USD	**100.00**	–	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [(b)]	Remittance	- do -	USD	–	**100.00**	–	100.00
PNB Remittance Co. (Nevada) [(c)]	Remittance	-do-	USD	–	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [(c)]	Holding Company	- do -	USD	–	**100.00**	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	–
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	–
Allied Commercial Bank (ACB)* [(e)]	Banking	People's Republic of China	USD	**99.04**	–	90.41	–
PILFC[(f)]	Leasing/Financing	Philippines	Php	**75.00**	–	90.00	–
PNB-IBJL Equipment Rentals Corporation[(g)]	Rental	- do -	Php	–	**75.00**	–	90.00
PNB LII *[(h)]	Insurance	- do -	Php	**80.00**	–	80.00	–
ALFC	Rental	- do -	Php	**57.21**	–	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	–

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

[(a)] *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*

[(b)] *Owned through PNB IIC*

[(c)] *Owned through PNB RCI*

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

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

[(f)] *Formerly Japan-PNB Leasing and Finance Corporation*

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

[(h)] *Beginning December 18, 2015, investment in PNB LII has been classified as held for sale following the approval of the Parent Company's BOD on the same date approving the sale of 51.00% of its ownership interest to Allianz SE.*

The details of this account in the Parent Company as follows:

	2015	2014
PNB SB	**₱10,935,041**	₱10,935,041
ACB	**6,087,520**	5,485,747
PNB IIC	**2,028,202**	2,028,202
PNB Europe PLC	**1,006,537**	1,006,537
ABCHKL	**947,586**	947,586
PNB GRF	**753,061**	753,061
PNB Gen	**600,000**	600,000
PNB LII*	**481,068**	1,327,083
PNB Holdings	**377,876**	377,876
PNB Capital	**350,000**	350,000
ABUK	**320,858**	320,858
OHBVI	**291,841**	291,840
PILFC	**181,942**	218,331
ALFC	**148,400**	148,400
PNB Securities	**62,351**	62,351
PNB Forex	**50,000**	50,000
PNB Corporation - Guam	**7,672**	7,672
	24,629,955	24,910,585
Less: Allowance for impairment losses (Note 16)	**807,973**	807,973
	₱23,821,982	₱24,102,612

* *In 2015, a portion of investment in PNB LII were reclassified to 'Assets of disposal group classified as held for sale' (Note 37).*

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital paid in excess of par value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

As of December 31, 2015 and 2014, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

In 2015, 2014 and 2013, the Parent Company's subsidiaries declared cash dividends amounting to ₱180.0 million, ₱67.8 million and ₱77.3 million, respectively. These are included under 'Miscellaneous income - others' (Note 28) in the Parent Company financial statements.

Material non-controlling interests

The financial information as of December 31, 2015 and 2014 of subsidiaries which have material NCI is provided below.

Proportion of equity interest held by non-controlling interests

	Principal Activities	**2015**	2014
ABCHKL	Banking	**49.00%**	49.00%
PNB LII	Insurance	**20.00%**	20.00%
ACB	Banking	**0.96%**	9.59%

Accumulated balances of material NCI	**2015**	2014
ABCHKL	**₱1,322,771**	₱1,183,905
PNB LII	**414,828**	390,465
ACB	**68,633**	639,045

Profit allocated to material NCI	**2015**	2014
ABCHKL	**₱80,376**	₱56,712
PNB LII	**71,586**	51,254
ACB	**75**	4,465

The following tables present financial information of subsidiaries with material non-controlling interests as of December 31, 2015 and 2014:

	2015	
	PNB LII	**ABCHKL**
Statement of Financial Position		
Current assets	**₱9,973,869**	**₱6,288,564**
Non-current assets	**13,552,891**	**4,309,709**
Current liabilities	**9,264,101**	**7,722,515**
Non-current liabilities	**12,188,520**	**176,225**
Statement of Comprehensive Income		
Revenues	**2,361,982**	**404,547**
Expenses	**2,004,051**	**240,514**
Net income	**357,931**	**164,033**
Total comprehensive income (loss)	**(61,693)**	**125,354**
Statement of Cash Flows		
Net cash provided by operating activities	**1,210,588**	**200,843**
Net cash provided used in investing activities	**(815,306)**	**(640)**
Net cash used in financing activities	**–**	**193,904**

	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 (loss)	1,365,316	66,228	(12,793)

(Forward)

	2014		
	PNB LII	ABCHKL	ACB
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)	–

As of December 31, 2015, the non-controlling interests in respect of ALFC, PILFC, ACB and OHBVI is not material to the Group.

Investment in ACB
In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of CNY394.1 million or USD57.7 million (equivalent to ₱2.8 billion).

With its merger with ABC in 2013 (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The fair value of consideration received from the step-up acquisition is equal to the carrying value of the disposed investment in ACB.

On November 22, 2013, the BOD of the Parent Company approved and confirmed the increase in equity investment of the Parent Company in ACB as a prerequisite to ACB's application for CNY license, by way of purchase of the 9.59% shareholdings of the natural–person investors in ACB in the amount of USD13.8 million. This was approved by BSP on June 4, 2014. On November 12, 2015, the China Banking Regulatory Commission approved the takeover of the Parent Company of the 51.00% shareholdings held by ABC and the buyout of the 8.63% shareholdings of six natural-person investors in ACB resulting in the increase of equity ownership in ACB to 99.04%. The Parent Company paid the natural-person investors on November 27, 2015. This acquisition was accounted for as an equity transaction which resulted in the recognition of other equity adjustment amounting to ₱14.5 million in the consolidated statement of financial position.

PNB Forex
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to December 31, 2013. PNB Forex ceased its business operations on January 1, 2006. As of December 31, 2015, PNB Forex is still in the process of complying with the requirements of regulatory agencies to effect the dissolution.

PNB SB
On November 28, 2014, the Parent Company infused additional capital to PNB SB amounting to ₱10.0 billion which will be used to build and refocus the Group's consumer lending business. The infusion of additional equity to PNB SB was approved by the BSP on February 28, 2014.

PILFC
On November 28, 2014, the BOD of the Parent Company approved the sell back by the Parent Company to IBJ Leasing (IBJL) of its 15.00% equity ownership in PILFC. Under the terms of the new and expanded partnership, IBJL increased its stake in PILFC from 10.00% to 25.00%, and the Parent Company's stake decreased from 90.00% to 75.00%. The total consideration from the sale of 15.00% equity ownership amounted to ₱102.6 million and the Parent Company recognized gain from disposal amounting to ₱66.2 million in its statement of income (Note 28). This sale was accounted for as an equity transaction which resulted in the recognition of other equity adjustment amounting to ₱0.5 million in the consolidated statement of financial position.

PNB Gen
The Parent Company contributed ₱600.0 million to PNB Gen in 2014 to acquire 65.75% direct 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. Further, the restructuring of relationships between the entities in the Group have no impact on the consolidated financial statements.

PNB Italy SpA (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, 2015 and 2014, the total assets of banking subsidiaries amounted to ₱57.1 billion and ₱41.6 billion, respectively; and ₱30.8 billion and ₱27.7 billion for insurance subsidiaries, respectively.

13. Investment Properties

The composition of and movements in this account follow:

	Consolidated		
	2015		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	**₱21,411,572**	**₱4,450,944**	**₱25,862,516**
Additions	**313,968**	**191,294**	**505,262**
Disposals/transfers/others	**(7,446,794)**	**(653,612)**	**(8,100,406)**
Cumulative translation adjustments	**9,000**	**1,010**	**10,010**
Balance at end of year	**14,287,746**	**3,989,636**	**18,277,382**
Accumulated Depreciation			
Balance at beginning of year	–	**1,856,814**	**1,856,814**
Depreciation (Note 11)	–	**162,097**	**162,097**
Disposals/transfers/others	–	**(265,343)**	**(265,343)**
Cumulative translation adjustments	–	**170**	**170**
Balance at end of year	–	**1,753,738**	**1,753,738**
Allowance for Impairment Losses (Note 16)	**2,855,093**	**438,546**	**3,293,639**
Net Book Value at End of Year	**₱11,432,653**	**₱1,797,352**	**₱13,230,005**

	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
Disposals/Transfers/Others	(1,801,070)	(437,144)	(2,238,214)
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
Disposals/Transfers/Others	–	(443,021)	(443,021)
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

	Parent Company		
	2015		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱21,108,095**	**₱4,218,699**	**₱25,326,794**
Additions	**261,352**	**172,600**	**433,952**
Disposals/Transfers/Others	**(5,272,551)**	**(630,305)**	**(5,902,856)**
Balance at end of year	**16,096,896**	**3,760,994**	**19,857,890**
Accumulated Depreciation			
Balance at beginning of year	**–**	**1,813,425**	**1,813,425**
Depreciation (Note 11)	**–**	**149,309**	**149,309**
Disposals/Transfers/Others	**–**	**(257,324)**	**(257,324)**
Balance at end of year	**–**	**1,705,410**	**1,705,410**
Allowance for Impairment Losses (Note 16)	**3,051,469**	**434,180**	**3,485,649**
Net Book Value at End of Year	**₱13,045,427**	**₱1,621,404**	**₱14,666,831**

	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
Disposals/Transfers/Others	(1,791,347)	(439,557)	(2,230,904)
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
Disposals/Transfers/Others	–	(444,898)	(444,898)
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

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 ₱150.0 million and ₱141.5 million, as of December 31, 2015 and 2014, 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.

The total recoverable value of certain investment properties of the Group that were impaired amounted to ₱7.5 billion and ₱8.8 billion as of December 31, 2015 and 2014, respectively. For the Parent Company, the total recoverable value that were impaired amounted to ₱7.3 billion and ₱8.6 billion as of December 31, 2015 and 2014, respectively.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of its subsidiaries and were transferred to property and equipment by the Group. Also in 2015, investment properties under joint arrangements with a total carrying value of ₱1.2 billion were transferred to Real Estate Inventories Held under Development under ‘Other Assets’ (Note 15). Property and equipment with carrying values of ₱54.5 million were leased out under operating leases and have been transferred to investment properties in 2015.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under ‘Miscellaneous expenses - Others’, amounted to ₱30.5 million, ₱26.4 million and ₱8.0 million in 2015, 2014, and 2013, respectively. While direct operating expenses on investment properties that did not generate rental income included under ‘Miscellaneous expenses - Others’, amounted to ₱192.4 million, ₱134.3 million and ₱180.8 million in 2015, 2014, and 2013, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under ‘Miscellaneous expenses - Others’, amounted to ₱20.4 million, ₱23.3 million and ₱7.0 million in 2015, 2014, and 2013, respectively. While direct operating expenses on investment properties that did not generate rental income included under ‘Miscellaneous expenses - Others’, amounted to ₱182.7 million, ₱132.6 million and ₱179.1 million in 2015, 2014, and 2013, respectively.

Net gains on sale or exchange of assets
This account consists of:

	Consolidated			Parent Company		
	2015	2014	2013	**2015**	2014	2013
Net gains from sale of investment properties (Note 34)	**₱1,435,798**	₱1,072,653	₱226,789	**₱1,400,650**	₱1,058,574	₱224,281
Net gains from foreclosure and repossession of investment properties	**152,061**	368,341	289,915	**152,553**	364,745	271,296
Net gains from sale of property and equipment	**7,659**	12,053	1,900	**3,741**	12,407	1,287
Net gains from sale of receivables (Note 34)	**–**	–	–	**24,441**	–	–
	₱1,595,518	₱1,453,047	₱518,604	**₱1,581,385**	₱1,435,726	₱496,864

14. **Goodwill and Intangible Assets**

Goodwill and intangible assets consist of:

	Consolidated				
	2015				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱1,254,343**	**₱3,544,075**	**₱13,375,407**
Additions	**–**	**–**	**571,768**	**571,768**	**–**
Write-offs	**–**	**–**	**(704)**	**(704)**	**–**
Cumulative translation adjustment	**–**	**–**	**5,550**	**5,550**	**–**
Balance at end of year	**1,897,789**	**391,943**	**1,830,957**	**4,120,689**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**359,525**	**247,505**	**642,221**	**1,249,251**	**–**
Amortization (Note 11)	**189,779**	**130,648**	**103,749**	**424,176**	**–**
Write-offs	**–**	**–**	**(704)**	**(704)**	**–**
Cumulative translation adjustment	**–**	**–**	**5,088**	**5,088**	**–**
Balance at end of year	**549,304**	**378,153**	**750,354**	**1,677,811**	**–**
Net Book Value at End of Year	**₱1,348,485**	**₱13,790**	**₱1,080,603**	**₱2,442,878**	**₱13,375,407**

	Consolidated				
	2014				
	Intangible Assets				
	Core Deposit	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
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

	Parent Company				
	2015				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱1,142,782**	**₱3,432,514**	**₱13,515,765**
Additions	**–**	**–**	**558,372**	**558,372**	**–**
Cumulative translation adjustment	**–**	**–**	**70**	**70**	**–**
Balance at end of year	**1,897,789**	**391,943**	**1,701,224**	**3,990,956**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**359,525**	**247,505**	**625,382**	**1,232,412**	**–**
Amortization (Note 11)	**189,779**	**130,648**	**91,753**	**412,180**	**–**
Cumulative translation adjustment	**–**	**–**	**118**	**118**	**–**
Balance at end of year	**549,304**	**378,153**	**717,253**	**1,644,710**	**–**
Net Book Value at End of Year	**₱1,348,485**	**₱13,790**	**₱983,971**	**₱2,346,246**	**₱13,515,765**

	Parent Company				
	2014				
	Intangible Assets				
	Core Deposit	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

Core deposit and customer relationship
CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI include the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertain to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost
Software cost as of December 31, 2015 and 2014 includes capitalized development costs amounting to ₱797.7 million and ₱289.0 million, respectively, related to the Parent Company's new core banking system which is expected to be completed and available for use by 2017.

Goodwill
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. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interests in the acquiree at proportionate share of identifiable assets and liabilities.

Impairment testing of goodwill and intangible asset
Goodwill acquired through business combinations has been allocated to three CGUs which are also reportable segments, namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to retail banking while CRI is allocated to corporate banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGUs' fair value less costs to sell and its value in use. The goodwill impairment test in 2015 and 2014 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:

	2015			2014		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**11.21%**	**13.11%**	**7.82%**	11.69%	14.80%	9.76%
Projected growth rate	**6.03%**	**6.03%**	**6.03%**	5.00%	5.00%	5.00%

The calculation of value in use for retail banking, corporate banking and treasury cash generating units 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 rate applied have been determined based on cost of equity for retail and corporate banking segments and weighted average cost of capital for treasury segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated		**Parent Company**	
	2015	2014	**2015**	2014
Financial				
Return checks and other cash items	**₱103,668**	₱942,126	**₱95,886**	₱941,597
Security deposits	**78,922**	100,986	**38,775**	85,654
Receivable from SPV	**500**	500	**500**	500
Others	**748**	1,840	**356**	1,525
	183,838	1,045,452	**135,517**	1,029,276
Nonfinancial				
Creditable withholding taxes	**3,770,716**	2,896,783	**3,675,683**	2,893,567
Real estate inventories held under development (Note 13)	**1,235,530**	–	**1,235,530**	–
Deferred reinsurance premiums	**786,287**	738,685	**–**	–
Deferred benefits	**401,231**	155,476	**326,380**	155,476

(Forward)

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Prepaid expenses	**₱395,671**	₱290,697	**₱328,489**	₱246,640
Documentary stamps on hand	**221,088**	44,884	**134,459**	34,724
Stationeries and supplies	**78,764**	84,672	**72,798**	78,962
Chattel mortgage properties-net of depreciation	**51,086**	53,089	**47,848**	49,549
Other investments	**37,664**	52,760	**16,696**	16,363
Sundry	**21,576**	61,670	**16,558**	61,717
Retirement benefit asset (Note 29)	**3,045**	5,709	**–**	–
Shortages	**2,260**	475	**2,260**	400
Postage stamps on hand	**304**	214	**215**	214
Miscellaneous	**431,359**	186,911	**259,896**	64,391
	7,436,581	4,572,025	**6,116,812**	3,602,003
	7,620,419	5,617,477	**6,252,329**	4,631,279
Less allowance for impairment losses (Note 16)	**840,151**	458,146	**835,042**	452,824
	₱6,780,268	₱5,159,331	**₱5,417,287**	₱4,178,455

Real estate inventories held under development
This represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2015 and 2014.

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

Deferred benefits
This represents the share of the Group in the cost of transportation equipment acquired under the Group's carplan which shall be amortized monthly.

Chattel mortgage properties
As of December 31, 2015 and December 31, 2014, accumulated depreciation on chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans amounted to ₱36.5 million and ₱80.0 million, respectively.

The total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱9.8 million and ₱11.3 million as of December 31, 2015 and 2014, respectively.

Receivable from SPV
The Group has receivable from SPV, Opal Portfolio Investing, Inc. (OPII), which was deconsolidated upon adoption of PFRS 10.

Receivable from SPV, represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of certain Non-performing assets of the Parent Company. Collections from OPII in 2015, 2014 and 2013 amounting to ₱353.0 million, ₱27.0 million and ₱266.0 million, respectively are recorded under 'Miscellaneous Income (Note 28).

Miscellaneous
Other financial assets include revolving fund, petty cash fund and miscellaneous cash and other cash items.

Other nonfinancial assets include postages, refundable deposits, notes taken for interest and sundry debits.

As of December 31, 2015 and 2014, 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. In 2015, the security fund was reclassified to 'Assets of disposal group classified as held for sale' (Note 37).

16. Allowance for Impairment and Credit Losses

Provision for impairment, credit and other losses
This account consists of:

	Consolidated			Parent Company		
	2015	2014	2013	**2015**	2014	2013
Continuing operations:						
Provision for impairment	**₱449,698**	₱293,384	₱106,431	**₱322,649**	₱495,674	₱304,732
Provision for credit losses	**860,393**	1,912,663	727,153	**513,697**	1,600,957	649,089
Provision for (reversal of) other losses (Note 35)	**(741,911)**	58,568	–	**(741,911)**	58,568	–
	568,180	2,264,615	833,584	**94,435**	2,155,199	953,821
Discontinued operations:						
Provision for credit losses (Note 37)	**32,765**	–	–	**–**	–	–
	₱600,945	₱2,264,615	₱833,584	**₱94,435**	₱2,155,199	₱953,821

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated					
	2015			2014		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱929,881**	**₱12,435,509**	**₱500**	₱928,408	₱12,167,591	₱500
Provisions	**32,995**	**860,163**	**–**	1,423	1,911,240	–
Accretion (Note 10)	**–**	**(217,097)**	**–**	–	(274,801)	–
Accounts charged-off	**–**	**(543,736)**	**–**	–	(1,879,083)	–
Transfers and others	**–**	**893,175**	**–**	50	510,562	–
Effect of disposal group classified as held for sale (Note 37)	**(32,765)**	**–**	**–**	–	–	–
Balance at end of year	**₱930,111**	**₱13,428,014**	**₱500**	₱929,881	₱12,435,509	₱500

**Pertains to 'Receivable from SPV'*

	Parent Company					
	2015			2014		
	AFS Investments	Loans and Receivables	Other Assets*	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	₱929,881	₱11,946,142	₱500	₱928,408	₱11,666,814	₱500
Provisions	230	513,467	–	1,423	1,599,534	–
Accretion (Note 10)	–	(216,973)	–	–	(274,801)	–
Accounts charged-off	–	(463,112)	–	–	(1,780,302)	–
Transfers and others	–	1,081,204	–	50	734,897	–
Balance at end of year	₱930,111	₱12,860,728	₱500	₱929,881	₱11,946,142	₱500

**Pertains to 'Receivable from SPV'*

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated							
	2015				2014			
	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	₱229,506	₱–	₱3,757,220	₱457,646	₱245,176	₱–	₱3,218,991	₱803,877
Provisions (reversals)	5,372	–	319,880	124,446	(4,349)	–	485,186	(187,453)
Disposals	–	–	(475,243)	(90)	(11,994)	–	(363,915)	–
Transfers and others	226,199	–	(308,218)	257,649	673	–	416,958	(158,778)
Balance at end of year	₱461,077	₱–	₱3,293,639	₱839,651	₱229,506	₱–	₱3,757,220	₱457,646

	Parent Company							
	2015				2014			
	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	₱228,453	₱807,973	₱3,760,466	₱452,324	₱245,176	₱1,012,231	₱3,012,609	₱803,528
Provisions (reversals)	5,372	–	315,514	1,763	(4,949)	–	688,076	(187,453)
Disposals	–	–	(475,243)	(90)	(11,994)	(204,258)	(363,873)	–
Transfers and others	30,876	–	(115,088)	380,545	220	–	423,654	(163,751)
Balance at end of year	₱264,701	₱807,973	₱3,485,649	₱834,542	₱228,453	₱807,973	₱3,760,466	₱452,324

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2015							
	Receivable from customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
Balance at beginning of year	₱4,530,880	₱189,270	₱62,462	₱1,012,637	₱17,109	₱3,619,267	₱3,003,884	₱12,435,509
Provisions (reversals)	803,832	(1,556)	(56,009)	176,565	(376)	(166,627)	104,334	860,163
Accretion on impaired loans (Note 10)	(195,847)	(100)	(10,595)	(10,398)	(157)	–	–	(217,097)
Accounts charged off	(314,705)	–	–	(19,915)	–	–	(209,116)	(543,736)
Transfers and others	362,026	(28,567)	152,744	(45,722)	6,490	166,627	279,577	893,175
Balance at end of year	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Individual impairment	₱3,191,973	₱47,060	₱50,582	₱79,743	₱22,520	₱3,619,267	₱2,111,427	₱9,122,572
Collective impairment	1,994,213	111,987	98,020	1,033,424	546	–	1,067,252	4,305,442
	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Gross amounts of loans and receivables subject to individual impairment	₱4,427,469	₱47,060	₱65,424	₱370,763	₱25,993	₱3,694,435	₱2,682,529	₱11,311,901

	Consolidated							
	2014							
	Receivable from customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
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

(Forward)

	Consolidated							
	2014							
	Receivable from customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
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

	Parent Company							
	2015							
	Receivable from customers					**Unquoted Debt Securities**	**Others**	**Total**
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**			
Balance at beginning of year	**₱4,266,298**	**₱ 189,270**	**₱62,462**	**₱963,545**	**₱17,105**	**₱3,619,267**	**₱2,828,195**	**₱11,946,142**
Provisions (reversals)	**739,770**	**(1,556)**	**(56,009)**	**45,803**	**(375)**	**(166,627)**	**(47,539)**	**513,467**
Accretion on impaired loans (Note 10)	**(195,847)**	**(100)**	**(10,594)**	**(10,275)**	**(157)**	**–**	**–**	**(216,973)**
Accounts charged off	**(234,454)**	**–**	**–**	**(19,774)**	**–**	**–**	**(208,884)**	**(463,112)**
Transfers and others	**463,120**	**(28,567)**	**152,743**	**15,721**	**6,491**	**166,627**	**305,069**	**1,081,204**
Balance at end of year	**₱5,038,887**	**₱159,047**	**₱148,602**	**₱995,020**	**₱23,064**	**₱3,619,267**	**₱2,876,841**	**₱12,860,728**
Individual impairment	**₱3,121,354**	**₱47,060**	**₱50,582**	**₱ 1,950**	**₱22,520**	**₱3,619,267**	**₱1,884,127**	**₱8,746,860**
Collective impairment	**1,917,533**	**111,987**	**98,020**	**993,070**	**544**	**–**	**992,714**	**4,113,868**
	₱5,038,887	**₱159,047**	**₱148,602**	**₱995,020**	**₱23,064**	**₱3,619,267**	**₱2,876,841**	**₱12,860,728**
Gross amounts of loans and receivables subject to individual impairment	**₱3,908,379**	**₱47,060**	**₱65,424**	**₱19,716**	**₱22,520**	**₱3,694,435**	**₱2,390,837**	**₱10,148,371**

	Parent Company							
	2014							
	Receivable from customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
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	₱963,545	₱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

17. Deposit Liabilities

As of December 31, 2015 and 2014, noninterest-bearing deposit liabilities amounted to ₱23.8 billion and ₱24.8 billion, respectively, for the Group and ₱23.6 billion and ₱24.7 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.05% to 5.00% in 2015, from 0.05% to 6.11% in 2014 and from 0.00% to 8.40% in 2013 for peso-denominated deposit liabilities, and from 0.00% to 2.25% in 2015, from 0.02% to 2.26% in 2014 and from 0.02% to 3.80% in 2013 for foreign currency-denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earn annual fixed interest rates ranging from 0.10% to 5.00% in 2015, from 0.10% to 6.11% in 2014, and from 0.13% to 8.40% in 2013 for peso-denominated deposit liabilities, and from 0.00% to 2.25% in 2015, 0.02% to 2.26% in 2014 and from 0.02% to 3.80% in 2013 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. As of December 31, 2015 and 2014, available reserves booked under 'Due from BSP' amounted to ₱74.3 billion and ₱68.2 billion, respectively, for the Group and ₱73.4 billion and ₱67.4 billion, respectively, for the Parent Company.

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 2015	Carrying Value 2014
December 12, 2014	June 12, 2020	₱7,000,000	4.13%	Quarterly	**₱6,958,411**	₱6,957,175
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,981,365**	3,976,133
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,979,615**	4,973,448
November 18, 2011	February 17, 2017	3,100,000	5.18%	Quarterly	**3,094,836**	3,090,564

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 ₱0.5 million 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		
	2015	2014	2013	**2015**	2014	2013
Savings	**₱1,677,307**	₱1,680,386	₱2,596,914	**₱1,646,552**	₱1,677,129	₱2,563,616
LTNCDs	**752,562**	637,957	592,205	**752,563**	637,957	592,205
Time	**463,980**	354,016	337,243	**292,707**	196,795	296,579
Demand	**86,170**	116,041	129,019	**81,898**	103,075	116,634
	₱2,980,019	₱2,788,400	₱3,655,381	**₱2,773,720**	₱2,614,956	₱3,569,034

In 2015, 2014 and 2013, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱16.9 million, ₱22.8 million and ₱19.4 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱85.8 million and ₱102.7 million as of December 31, 2015 and 2014, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Derivative liabilities (Notes 23 and 36)	**₱135,193**	₱44,903	**₱135,009**	₱44,264
Designated at FVPL				
Segregated fund liabilities (Note 37)	**–**	10,817,122	**–**	–
	₱135,193	₱10,862,025	**₱135,009**	₱44,264

In 2015, the segregated fund liabilities of PNB LII were reclassified as part of 'Liabilities of disposal group classified as held for sale' (Note 37). As of December 31, 2014, the balance of segregated fund liabilities consists of:

	2014
Segregated funds (Note 9)	₱10,654,770
Additional subscriptions	162,352
Segregated fund liabilities	₱10,817,122

19. **Bills and Acceptances Payable**

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Bills payable to:				
BSP and local banks (Note 34)	**₱17,580,304**	₱16,393,374	**₱14,784,750**	₱15,965,715
Foreign banks	**7,676,238**	1,027,442	**9,269,456**	492,733
Others	**150,864**	1,262,389	**230,865**	1,700,743
	25,407,406	18,683,205	**24,285,071**	18,159,191
Acceptances outstanding (Note 10)	**344,816**	366,853	**344,816**	366,853
	₱25,752,222	₱19,050,058	**₱24,629,887**	₱18,526,044

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.01% to 2.50%, from 0.03% to 2.50% and from 0.12% to 0.99% in 2015, 2014 and 2013, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.38% to 0.88%, from 0.63% to 2.00% and from 1.09% to 3.50% in 2015, 2014 and 2013, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion and as of December 31, 2015 and 2014 (Note 10).

As of December 31, 2015, bills payable with a carrying amount of ₱12.8 billion is secured by a pledge of certain AFS with carrying value and fair value of ₱8.5 billion and HTM investments with carrying value and fair value of ₱7.0 billion and ₱7.5 billion, respectively (Note 9).

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).

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		
	2015	2014	2013	**2015**	2014	2013
Continuing operations:						
Subordinated debt* (Notes 18 and 21)	**₱661,304**	₱757,000	₱923,229	**₱661,304**	₱660,222	₱923,229
Bills payable	**321,128**	94,741	135,167	**296,399**	139,741	91,805
Others	**47,563**	5,186	12,300	**45,470**	1,151	12,090
	1,029,995	856,927	1,070,696	**1,003,173**	801,114	1,027,124
Discontinued operations:						
Others (Note 37)	**–**	–	5,417	**–**	–	–
	₱1,029,995	₱856,927	₱1,076,113	**₱1,003,173**	₱801,114	₱1,027,124

** Consists of interest on subordinated debt at amortized cost and designated at FVPL*

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Accrued taxes and other expenses	**₱3,845,382**	₱3,425,438	**₱3,340,821**	₱3,038,773
Accrued interest (Note 10)	**2,029,846**	2,015,911	**2,030,912**	1,996,383
	₱5,875,228	₱5,441,349	**₱5,371,733**	₱5,035,156

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Financial liabilities:				
Promotional expenses	**₱284,281**	₱136,963	**₱284,281**	₱131,963
Information technology-related expenses	**194,974**	186,621	**193,889**	185,638
Management, directors and other professional fees	**148,935**	92,743	**128,855**	85,769
Rent and utilities payable	**103,043**	67,910	**90,454**	68,154
Repairs and maintenance	**22,511**	12,836	**21,920**	12,836
	753,744	497,073	**719,399**	484,360
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,441,417**	1,471,970	**1,416,521**	1,453,455
PDIC insurance premiums	**470,701**	436,320	**459,901**	426,144
Other taxes and licenses	**398,455**	285,487	**81,966**	146,541
Employee benefits	**298,183**	241,426	**282,674**	239,057
Other expenses	**482,882**	493,162	**380,360**	289,216
	3,091,638	2,928,365	**2,621,422**	2,554,413
	₱3,845,382	₱3,425,438	**₱3,340,821**	₱3,038,773

The Parent Company's accrued interest payable includes the transferred liabilities from Maybank amounting to ₱1.6 billion as of December 31, 2015 and 2014 (Note 10).

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

21. **Subordinated Debt**

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2015	2014
June 15, 2011	June 15, 2021	₱6,500,000	6.750%	Quarterly	**₱6,494,324**	₱6,482,757
May 9, 2012	May 9, 2022	3,500,000	5.875%	Quarterly	**3,492,103**	3,486,741
					₱9,986,427	₱9,969,498

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 May 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.

As of December 31, 2015 and 2014, the unamortized transaction cost of subordinated debt amounted to ₱13.6 million and ₱30.5 million, respectively.

In 2015, 2014 and 2013, amortization of transaction costs amounting to ₱16.9 million, ₱15.8 million and ₱14.8 million, respectively were charged to 'Interest expenses - bills payable and other borrowings' in the statement of income (Note 19).

22. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Financial				
Accounts payable	**₱6,825,663**	₱6,703,874	**₱6,179,304**	₱6,057,924
Insurance contract liabilities (Note 37)	**4,719,336**	11,180,597	**–**	–
Bills purchased - contra (Note 10)	**3,418,002**	4,230,348	**3,411,729**	4,222,235
Manager's checks and demand drafts outstanding	**937,799**	1,030,298	**915,764**	1,018,139
Deposits on lease contracts	**854,817**	685,745	**37,448**	34,374
Dormant credits	**753,338**	559,585	**734,346**	546,888
Accounts payable - electronic money	**556,618**	459,121	**556,618**	459,121
Due to other banks	**461,100**	222,227	**517,261**	408,925
Payment order payable	**407,196**	296,102	**407,196**	295,971
Margin deposits and cash letters of credit	**182,640**	86,143	**168,820**	73,972
Commission payable	**132,059**	118,844	**–**	–
Transmission liability	**24,976**	76,893	**–**	–
Deposit for keys on safety deposit boxes	**14,217**	14,084	**14,217**	14,084
Due to BSP	**–**	101,172	**–**	101,172
	19,287,761	25,765,033	**12,942,703**	13,232,805
Nonfinancial				
Retirement benefit liability (Note 29)	**2,955,003**	2,867,287	**2,889,735**	2,796,997
Reserve for unearned premiums	**1,191,405**	1,539,590	**–**	–
Provisions (Note 35)	**898,737**	1,640,648	**898,737**	1,640,648
Due to Treasurer of the Philippines	**438,943**	366,841	**438,451**	366,841
Withholding tax payable	**232,835**	224,045	**217,879**	204,697
Deferred tax liabilities (Note 31)	**152,585**	139,699	**–**	–
SSS, Philhealth, employer's compensation premiums and Pag-IBIG contributions payable	**29,092**	29,330	**24,237**	23,695
Unapplied advances	**21,370**	97,392	**21,370**	97,392
Miscellaneous	**450,553**	662,893	**236,019**	266,098
	6,370,523	7,567,725	**4,726,428**	5,396,368
	₱25,658,284	₱33,332,758	**₱17,669,131**	₱18,629,173

'Miscellaneous' of the Group and the Parent Company include interoffice floats, remittance - related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2015 and 2014 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2015			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱42**	**₱5,210**	**47.37**	**155,521**
EUR	**122**	**–**	**1.09**	**898**
HKD	**–**	**66**	**7.75**	**13,012**
CAD	**–**	**170**	**0.72**	**1,385**
GBP	**–**	**168**	**1.36**	**1,104**
SELL:				
USD	**66,932**	**–**	**47.31**	**374,421**
CAD	**520**	**34**	**0.72**	**3,444**
GBP	**455**	**139**	**1.49**	**5,700**
SGD	**411**	**190**	**1.41**	**4,600**
HKD	**86**	**184**	**7.75**	**63,733**
EUR	**4**	**11**	**1.10**	**2,200**
JPY	**–**	**86,305**	**0.39**	**4,492,495**
AUD	**–**	**149**	**0.72**	**450**
Interest rate swaps	**49,444**	**42,567**		
Warrants	**63,332**	**–**		
	₱181,348	**₱135,193**		

** The notional amounts and average forward rates pertain to original currencies.*

	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
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

(Forward)

	Consolidated			
	2014			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
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.*

	Parent Company			
	2015			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱42**	**₱5,210**	**47.37**	**155,521**
CAD	**–**	**170**	**0.72**	**1,385**
GBP	**–**	**168**	**1.36**	**1,104**
HKD	**–**	**66**	**7.75**	**13,012**
JPY	**–**	**–**	**120.34**	**1,330**
SELL:				
USD	**66,932**	**–**	**47.31**	**374,421**
CAD	**520**	**34**	**0.72**	**3,444**
GBP	**455**	**139**	**1.49**	**5,700**
SGD	**411**	**190**	**1.41**	**4,600**
EUR	**4**	**11**	**1.10**	**2,200**
HKD	**2**	**–**	**7.75**	**6,633**
JPY	**–**	**86,305**	**0.39**	**4,492,495**
AUD	**–**	**149**	**0.72**	**450**
Interest rate swaps	**49,444**	**42,567**		
Warrants	**63,332**	**–**		
	₱181,142	**₱135,009**		

** 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

(Forward)

	Parent Company			
	2014			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
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.*

As of December 31, 2015 and 2014, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.3 million and USD1.6 million, respectively.

The table below shows the rollforward analysis of net derivatives assets as of December 31, 2015 and 2014:

	Consolidated		**Parent Company**	
	2015	2014	**2015**	2014
Balance at the beginning of the 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
Changes in fair value				
Currency forwards and spots*	**(571,666)**	196,005	**(571,649)**	195,848
Interest rate swaps and warrants**	**(11,709)**	(90,761)	**(11,709)**	(90,761)
	(583,375)	105,244	**(583,358)**	105,087
Availments (Settlements)	**537,882**	(109,192)	**537,826**	(108,951)
Balance at end of year:				
Derivative assets	**181,348**	136,551	**181,142**	135,929
Derivative liabilities	**(135,193)**	(44,903)	**(135,009)**	(44,264)
	₱46,155	₱91,648	**₱46,133**	₱91,665

* *Presented as part of 'Foreign exchange gains - net'.*
** *Recorded under 'Trading and investment securities gains - net' (Note 9)*

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2015			2014		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	₱15,220,536	₱–	₱15,220,536	₱14,628,489	₱–	₱14,628,489
Due from BSP	81,363,444	–	81,363,444	105,773,685	–	105,773,685
Due from other banks	18,287,308	–	18,287,308	15,591,406	–	15,591,406
Interbank loans receivable	5,800,383	–	5,800,383	7,671,437	–	7,671,437
Securities held under agreements to resell	14,550,000	–	14,550,000	–	–	–
Financial assets at FVPL	4,510,545	–	4,510,545	17,351,626	–	17,351,626
AFS investments – gross (Note 9)	2,915,170	66,355,965	69,271,135	4,383,175	59,638,203	64,021,378
HTM investments	68,173	23,163,824	23,231,997	61,374	22,908,932	22,970,306
Loans and receivables – gross (Note 10)	159,032,473	221,242,883	380,275,356	126,762,738	202,624,146	329,386,884
Other assets – gross (Note 15)	133,233	50,605	183,838	943,966	101,486	1,045,452
	301,881,265	310,813,277	612,694,542	293,167,896	285,272,767	578,440,663
Nonfinancial Assets						
Property and equipment – gross (Note 11)	–	28,870,304	28,870,304	–	25,515,235	25,515,235
Investment properties – gross (Note 13)	–	18,277,382	18,277,382	–	25,862,516	25,862,516
Deferred tax assets	–	1,173,575	1,173,575	–	1,461,938	1,461,938
Goodwill (Note 14)	–	13,375,407	13,375,407	–	13,375,407	13,375,407
Intangible assets (Note 14)	–	4,120,689	4,120,689	–	3,544,075	3,544,075
Residual value of leased assets (Note 10)	225,590	486,731	712,321	–	563,032	563,032
Other assets – gross (Note 15)	5,906,598	1,529,983	7,436,581	1,263,849	3,308,176	4,572,025
	6,132,188	67,834,071	73,966,259	1,263,849	73,630,379	74,894,228
Assets of disposal group classified as held for sale (Note 37)	23,526,757	–	23,526,757	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			18,952,992			17,810,262
Unearned and other deferred income (Note 10)			1,834,517			1,261,386
Accumulated amortization and depreciation (Notes 11, 13 and 14)			9,712,312			8,817,411
			₱679,687,737			₱625,445,832
Financial Liabilities						
Deposit liabilities	₱446,102,751	₱39,834,430	₱485,937,181	₱403,844,601	₱43,799,156	₱447,643,757
Financial liabilities at FVPL	126,075	9,118	135,193	20,099	10,841,926	10,862,025
Bills and acceptances payable	5,836,838	19,915,384	25,752,222	10,075,958	8,974,100	19,050,058
Subordinated debt	–	9,986,427	9,986,427	–	9,969,498	9,969,498
Accrued interest payable (Note 20)	465,324	1,564,522	2,029,846	460,493	1,555,418	2,015,911
Accrued other expenses payable (Note 20)	753,744	–	753,744	497,073	–	497,073
Other liabilities (Note 22):						
Accounts payable	6,825,663	–	6,825,663	6,703,874	–	6,703,874
Insurance contract liabilities	4,528,298	191,038	4,719,336	5,564,978	5,615,619	11,180,597
Bills purchased – contra	3,418,002	–	3,418,002	4,230,348	–	4,230,348
Manager's checks and demand drafts outstanding	937,799	–	937,799	1,030,298	–	1,030,298
Deposits on lease contracts	249,885	604,932	854,817	46,761	638,984	685,745
Dormant credits	116,337	637,001	753,338	114,606	444,979	559,585
Accounts payable – electronic money	556,618	–	556,618	459,121	–	459,121
Due to other banks	461,100	–	461,100	222,227	–	222,227
Payment order payable	407,196	–	407,196	296,102	–	296,102
Margin deposits and cash letters of credit	182,640	–	182,640	86,143	–	86,143
Commission payable	132,059	–	132,059	118,844	–	118,844
Transmission liability	24,976	–	24,976	76,893	–	76,893
Deposit for keys on safety deposit boxes	14,217	–	14,217	14,084	–	14,084
Due to BSP	–	–	–	101,172	–	101,172
	471,139,522	72,742,852	543,882,374	433,963,675	81,839,680	515,803,355

(Forward)

	Consolidated					
	2015			2014		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**₱1,177,015**	**₱1,914,623**	**₱3,091,638**	₱963,233	₱1,965,132	₱2,928,365
Income tax payable	**134,720**	**–**	**134,720**	85,505	–	85,505
Other liabilities (Note 22)	**2,799,195**	**3,571,328**	**6,370,523**	3,528,602	4,039,123	7,567,725
	4,110,930	**5,485,951**	**9,596,881**	4,577,340	6,004,255	10,581,595
Liabilities of disposal group classified as held for sale (Note 37)	**21,452,621**	**–**	**21,452,621**	–	–	–
	₱496,703,073	**₱78,228,803**	**₱574,931,876**	₱438,541,015	₱87,843,935	₱526,384,950

	Parent Company					
	2015			2014		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱12,598,715**	**₱–**	**₱12,598,715**	₱13,865,078	₱–	₱13,865,078
Due from BSP	**79,203,948**	**–**	**79,203,948**	95,415,467	–	95,415,467
Due from other banks	**11,450,573**	**–**	**11,450,573**	5,013,357	–	5,013,357
Interbank loans receivable	**5,958,526**	**–**	**5,958,526**	7,671,437	–	7,671,437
Securities held under agreements to resell	**14,550,000**	**–**	**14,550,000**	–	–	–
Financial assets at FVPL	**4,492,864**	**–**	**4,492,864**	6,695,950	–	6,695,950
AFS investments – gross (Note 9)	**2,026,914**	**65,637,949**	**67,664,863**	3,699,094	52,642,375	56,341,469
HTM investments	**4,706**	**23,132,937**	**23,137,643**	–	21,559,631	21,559,631
Loans and receivables – gross (Note 10)	**146,526,387**	**196,062,353**	**342,588,740**	118,062,018	183,773,451	301,835,469
Other assets – gross (Note 15)	**100,920**	**34,597**	**135,517**	943,122	86,154	1,029,276
	276,913,553	**284,867,836**	**561,781,389**	251,365,523	258,061,611	509,427,134
Nonfinancial Assets						
Property and equipment – gross (Note 11)	**–**	**25,216,112**	**25,216,112**	–	24,157,278	24,157,278
Investment properties – gross (Note 13)	**–**	**19,857,890**	**19,857,890**	–	25,326,794	25,326,794
Deferred tax assets	**–**	**1,031,948**	**1,031,948**	–	1,029,423	1,029,423
Investments in Subsidiaries (Note 12)	**–**	**24,629,955**	**24,629,955**	–	24,910,585	24,910,585
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765
Intangible assets (Note 14)	**–**	**3,990,956**	**3,990,956**	–	3,432,514	3,432,514
Other assets – gross (Note 15)	**5,589,361**	**527,451**	**6,116,812**	1,203,083	2,398,920	3,602,003
	5,589,361	**88,770,077**	**94,359,438**	1,203,083	94,771,279	95,974,362
Asset of disposal group classified as held for sale (Note 37)	**846,015**	**–**	**846,015**	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**19,184,204**			18,125,739
Unearned and other deferred income (Note 10)			**1,427,774**			867,933
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**9,157,333**			8,291,247
			₱627,217,531			₱578,116,577
Financial Liabilities						
Deposit liabilities	**₱434,664,563**	**₱35,829,825**	**₱470,494,388**	₱385,631,811	₱46,814,852	₱432,446,663
Financial liabilities at FVPL	**125,891**	**9,118**	**135,009**	19,460	24,804	44,264
Bills and acceptances payable	**4,714,503**	**19,915,384**	**24,629,887**	7,443,348	11,082,696	18,526,044
Subordinated debt	**–**	**9,986,427**	**9,986,427**	–	9,969,498	9,969,498
Accrued interest payable (Note 20)	**466,390**	**1,564,522**	**2,030,912**	440,965	1,555,418	1,996,383
Accrued other expenses payable (Note 20)	**719,399**	**–**	**719,399**	484,360	–	484,360
Other liabilities (Note 22):						
Accounts payable	**6,179,304**	**–**	**6,179,304**	6,057,924	–	6,057,924
Bills purchased – contra	**3,411,729**	**–**	**3,411,729**	4,222,235	–	4,222,235
Manager's checks and demand drafts outstanding	**915,764**	**–**	**915,764**	1,018,139	–	1,018,139
Dormant credits	**108,827**	**625,519**	**734,346**	110,208	436,680	546,888
Accounts payable – electronic money	**556,618**	**–**	**556,618**	459,121	–	459,121
Due to other banks	**517,261**	**–**	**517,261**	408,925	–	408,925
Payment order payable	**407,196**	**–**	**407,196**	295,971	–	295,971
Margin deposits and cash letters of credit	**168,820**	**–**	**168,820**	73,972	–	73,972
Deposits on lease contracts	**–**	**37,448**	**37,448**	–	34,374	34,374
Deposit for keys on safety deposit boxes	**14,217**	**–**	**14,217**	14,084	–	14,084
Due to BSP	**–**	**–**	**–**	101,172	–	101,172
	452,970,482	**67,968,243**	**520,938,725**	406,781,695	69,918,322	476,700,017

(Forward)

	Parent Company					
	2015			2014		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**₱824,541**	**₱1,796,881**	**₱2,621,422**	₱811,742	₱1,742,671	₱2,554,413
Income tax payable	**55,180**	**–**	**55,180**	70,001	–	70,001
Other liabilities	**1,373,445**	**3,352,983**	**4,726,428**	1,994,014	3,402,354	5,396,368
	2,253,166	**5,149,864**	**7,403,030**	2,875,757	5,145,025	8,020,782
	₱455,223,648	**₱73,118,107**	**₱528,341,755**	₱409,657,452	₱75,063,347	₱484,720,799

25. Equity

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

	Shares		Amount	
	2015	2014	**2015**	2014
Common - ₱40 par value				
Authorized	**1,750,000,001**	1,750,000,001	**₱70,000,000**	₱70,000,000
Issued and outstanding				
Balance at the beginning of the year	**1,249,139,678**	1,086,208,416	**49,965,587**	43,448,337
Issued during the year	**–**	162,931,262	**–**	6,517,250
	1,249,139,678	1,249,139,678	**49,965,587**	49,965,587
Parent Company Shares Held by a Subsidiary	**(120,000)**	–	**(9,945)**	–
	1,249,019,678	1,249,139,678	**₱49,955,642**	₱49,965,587

The Parent Company shares are listed in the PSE. As of December 31, 2015 and 2014, the Parent Company has 29,985 and 30,167 stockholders, respectively.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10.0 billion divided into 100,000,000 common shares with a par value of ₱100.0 per share. Its principal stockholder was the NG which owned 25,000,000 common shares.

To foster a financial intermediation system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.0	₱100.0	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.0	₱265.0	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.0	₱260.0	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. AS096-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25.0 billion pesos divided into 250,000,000 common shares with a par value of ₱100.0 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following rights offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.0	₱137.8	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.0	₱60.0	833,333,334 common shares	206,220,257 common shares
February 2014	Stock Rights Offering	162,931,262 common shares	Fifteen (15) Right Shares for every 100 common shares	₱40.0	₱71.0	1,750,000,001 common shares	1,249,139,678 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.0 per share to ₱15.0 billion divided into 250,000,000 common shares with a par value of ₱60.0 per share. Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15.0 Billion divided into 250,000,000 common shares with a par value of ₱60.0 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.0 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.0 divided into 833,333,334 shares with a par value of ₱60.0 per share to ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share to ₱50,000,000,040.0 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.0 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the PDIC in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.0 per share.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and

d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Parent Company shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

Last February 2014, the Parent Company successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Parent Company at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Parent Company. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Parent Company. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Parent Company's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2015 and 2014 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion) and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Accumulated Translation Adjustment

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Surplus Reserves

The surplus reserves consist of:

	2015	2014
Reserve for trust business (Note 33)	**₱474,263**	₱457,620
Reserve for self-insurance	**80,000**	80,000
	₱554,263	₱537,620

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2015 and 2014, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	2015		2014	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱97,272.25**		₱93,899.13	
Less: Regulatory Adjustments to CET 1	**22,978.47**		22,391.62	
Total CET1 Capital	**74,293.78**		71,507.51	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**74,293.78**		71,507.51	
Add: Tier 2 Capital	**13,763.24**		13,040.32	
Total qualifying capital	**₱88,057.02**	**₱45,766.26**	₱84,547.83	₱41,033.61
Risk weighted assets	**₱457,662.62**		₱410,336.08	
Tier 1 capital ratio	**16.23%**		17.43%	
Total capital ratio	**19.24%**		20.60%	

	2015		2014	
Parent	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱94,044.29**		₱90,782.61	
Less: Regulatory Adjustments to CET 1	**47,596.44**		45,931.47	
Total CET1 Capital	**46,447.85**		44,851.14	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**46,447.85**		44,851.14	
Add: Tier 2 Capital	**13,417.01**		12,833.10	
Total qualifying capital	**₱59,864.86**	**₱41,504.86**	₱57,684.24	₱37,502.63
Risk weighted assets	**₱415,048.57**		₱375,026.28	
Tier 1 capital ratio	**11.19%**		11.96%	
Total capital ratio	**14.42%**		15.38%	

The Group and PNB LII have complied with all externally imposed capital requirement throughout the year. As of December 31, 2015, PNB Gen's RBC ratio is lower than 100.00%. On November 10, 2015, PNB Gen submitted its capital build-up program to the IC and such program is under review.

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

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

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

On June 27, 2014, the BSP issued Circular No. 839, *Real Estate Stress Test (REST) Limit for Real Estate Exposure*, which set a prudential limit for real estate exposures and other real estate properties of universal, commercial and thrift banks. REST will be undertaken for real estate exposure at an assumed write-off of 25.00%. The prudential REST limit which shall be complied at all times are 6.00% of CET1 ratio and 10.00% of CAR. The Circular is effective July 19, 2014.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.9 billion as of December 31, 2015 and 2014 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 a Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱2.6 billion and ₱2.7 billion as of December 31, 2015 and 2014, respectively, is not available for dividend declaration. The accumulated earnings become available for dividends upon receipt of cash dividends from subsidiaries.

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives. 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.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular No. 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		
	2015	2014	2013	**2015**	2014	2013
Return on average equity (a/b)	**6.19%**	6.06%	8.83%	**6.47%**	5.17%	9.52%
a) Net income	**₱6,311,595**	₱5,495,045	₱5,247,489	**₱6,216,693**	₱4,419,349	₱5,379,415
b) Average total equity	**101,908,372**	90,699,918	59,456,656	**96,135,777**	85,521,555	56,500,721
Return on average assets (c/d)	**0.97%**	0.89%	1.11%	**1.03%**	0.77%	1.20%
c) Net income	**₱6,311,595**	₱5,495,045	₱5,247,489	**₱6,216,693**	₱4,419,349	₱5,379,415
d) Average total assets	**652,566,785**	620,860,726	472,274,243	**602,667,054**	576,855,414	449,380,024
Net interest margin on average earning assets (e/f)	**3.24%**	3.21%	3.46%	**3.14%**	3.21%	3.42%
e) Net interest income (Note 37)	**₱18,158,802**	₱16,874,278	₱13,748,539	**₱15,712,416**	₱15,153,084	₱12,752,068
f) Average interest earning assets	**560,084,638**	525,417,739	397,360,801	**500,148,703**	472,679,584	372,448,575

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
Deposit-related	**₱1,076,041**	₱984,541	₱993,632	**₱1,050,546**	₱960,199	₱968,127
Commissions	**820,497**	641,216	830,285	**685,396**	539,146	669,469
Remittance	**739,779**	735,420	406,465	**363,822**	344,045	131,340
Credit-related	**500,852**	387,535	133,691	**479,174**	374,698	122,803
Underwriting fees	**327,400**	136,265	307,348	–	–	–
Interchange fees	**317,509**	203,501	246,188	**317,509**	203,501	246,188
Trust fees (Note 33)	**256,203**	230,111	189,874	**256,203**	230,111	189,874
Credit card-related	**62,071**	84,899	32,435	**62,071**	84,899	32,435
Miscellaneous	**212,546**	142,961	349,147	**141,251**	135,563	251,046
	₱4,312,898	₱3,546,449	₱3,489,065	**₱3,355,972**	₱2,872,162	₱2,611,282

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 were generated from the credit card business acquired by the Parent Company through merger with ABC.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

27. Net Insurance Premiums and Benefits and Claims

Net Insurance Premiums
This account consists of:

	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)
Gross earned premiums	**₱2,431,033**	₱1,682,368	₱1,520,026
Reinsurers' share of gross earned premiums	**(1,890,569)**	(1,274,095)	(1,148,635)
	₱540,464	₱408,273	₱371,391

Net Insurance Benefits and Claims
This account consists of:

	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)
Gross insurance contract benefits and claims paid	**₱1,653,355**	₱1,453,605	₱706,182
Reinsurers' share of gross insurance contract benefits and claims paid	**(1,045,150)**	(1,109,404)	(417,518)
Gross change in insurance contract liabilities	**(529,863)**	(1,011,013)	3,744,261
Reinsurers' share of change in insurance contract liabilities	**358,545**	762,950	(2,759,792)
	₱436,887	₱96,138	₱1,273,133

28. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
Recovery from insurance claim (Note 34)	**₱709,160**	₱–	₱–	**₱709,160**	₱–	₱–
Income from SPV (Note 15)	**353,000**	27,000	266,000	**353,000**	27,000	266,000
Rental income	**338,055**	634,397	442,993	**266,067**	363,956	273,132
Recoveries	**162,430**	171,392	108,811	**90,179**	168,724	79,329
Dividends (Note 12)	**22,190**	2,409	3,399	**198,338**	79,744	81,562
Penalty charges	**20,342**	11,027	–	**–**	11,027	–
Customs Fees	**14,801**	11,702	13,773	**14,801**	11,702	13,774
Sales deposit forfeiture	**12,023**	12,250	12,254	**12,023**	12,250	12,254
Referral and trust fees	**2,382**	1,993	55,124	**–**	–	–
Gain on sale of PILFC shares (Note 12)	**–**	–	–	**66,235**	–	–
Gain from step up acquisition	**–**	–	63,605	**–**	–	–
Gain on redemption of Victorias Milling Company (VMC) common shares (Note 34)	**–**	622,983	28,373	**–**	622,983	28,373
Share in net income of an associate	**–**	–	4,975	**–**	–	16,144
Others	**85,376**	646,262	391,356	**49,352**	122,204	214,295
	₱1,719,759	₱2,141,415	₱1,390,663	**₱1,759,155**	₱1,419,590	₱984,863

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2015	2014 (As Restated - Note 37)	2013 (As Restated - Note 37)	**2015**	2014	2013
Secretarial, janitorial and messengerial	**₱1,105,946**	₱1,031,126	₱927,206	**₱1,066,364**	₱997,624	₱898,765
Insurance	**1,078,679**	949,743	895,410	**1,027,759**	913,679	869,000
Marketing expenses	**764,767**	540,544	719,609	**731,870**	523,658	701,248
Information technology	**489,036**	396,818	347,524	**465,872**	375,945	331,400
Management and other professional fees	**323,979**	338,947	326,124	**268,137**	266,756	264,109
Litigation expenses	**235,526**	229,886	267,614	**224,669**	216,741	264,768
Travelling	**229,251**	222,552	229,750	**209,116**	201,922	218,589
Postage, telephone and cable	**216,189**	180,893	188,016	**166,034**	135,873	141,187
Entertainment and representation	**86,095**	146,950	207,277	**72,799**	126,698	174,091
Repairs and maintenance	**81,711**	79,664	94,710	**81,711**	79,664	71,902
Freight	**34,195**	46,723	63,660	**32,556**	35,043	53,015
Fuel and lubricants	**25,476**	54,721	117,637	**24,275**	54,027	109,600
Miscellaneous	**648,694**	522,035	816,258	**540,824**	23,252	729,878
	₱5,319,544	₱4,740,602	₱5,200,795	**₱4,911,986**	₱3,950,882	₱4,827,552

'Miscellaneous' includes stationery and supplies used, donations, fines, penalties, periodicals, magazines and other charges.

29. **Retirement Plan**

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Retirement liabilities (included in 'Other liabilities')	**₱2,955,003**	₱2,867,287	**₱2,889,735**	₱2,796,997
Net plan assets (included in 'Other assets')	**3,045**	5,709	**–**	–
	₱2,951,958	₱2,861,578	**₱2,889,735**	₱2,796,997

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2015, the Parent Company has two separate regular retirement plans for the employees of PNB and ABC. In addition, the Parent Company provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated

2015

		Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal**	Contributions by employer	Others***	December 31, 2015
Present value of pension obligation	₱6,537,062	₱628,059	₱6,759	₱297,507	₱932,325	(₱473,928)	₱–	₱93,289	(₱334,797)	(₱241,508)	₱–	₱69,366	₱6,823,317
Fair value of plan assets	3,675,484	–	–	160,627	160,627	(473,928)	(335,775)	–	–	(335,775)	879,035	(34,084)	3,871,359
	₱2,861,578	₱628,059	₱6,759	₱136,880	₱771,698	₱–	₱335,775	₱93,289	(₱334,797)	₱94,267	(₱879,035)	₱103,450	₱2,951,958

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

** *Includes remeasurement losses of ₱4.4 million for PNB LII in 2015*

*** *Others consist of retirement of disposal group classified as held for sale and retirement previously included in accrued expenses*

Consolidated

2014

		Net benefit costs*					Remeasurement losses in other comprehensive income					
	January 1, 2014	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2014
Present value of pension obligation	₱5,364,975	₱393,876	₱45,767	₱242,375	₱682,018	(₱543,913)	₱–	₱920,585	₱113,397	₱1,033,982	₱–	₱6,537,062
Fair value of plan assets	1,981,644	–	–	89,936	89,936	(543,913)	9,915	–	–	9,915	2,137,902	3,675,484
	₱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 statement of income*

Parent Company

2015

		Net benefit costs*					Remeasurement losses in other comprehensive income						
	January 1, 2015	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Others**	Contributions by employer	December 31, 2015
Present value of pension obligation	₱6,370,475	₱601,014	₱6,455	₱290,683	₱898,152	(₱469,129)	₱–	₱63,343	(₱321,702)	(₱258,359)	₱–	₱125,273	₱6,666,412
Fair value of plan assets	3,573,478	–	–	156,518	156,518	(469,129)	(334,812)	–	–	(334,812)	850,622	–	3,776,677
	₱2,796,997	₱601,014	₱6,455	₱134,165	₱741,634	₱–	₱334,812	₱63,343	(₱321,702)	₱76,453	(₱850,622)	₱125,273	₱2,889,735

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

** *Others consist of retirement previously included in accrued expenses*

Parent Company

2014

		Net benefit costs*					Remeasurement losses in other comprehensive income					
	January 1, 2014	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2014
Present value of pension obligation	₱5,219,927	₱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
	₱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 statement of income*

The Group and the Parent Company expects to contribute ₱838.1 million and ₱809.0 million, respectively, to the defined benefit plans in 2016.
The average duration of the retirement liability as at December 31, 2015 is 15 years.

The latest actuarial valuations for these retirement plans were made as of December 31, 2015. The following table shows the actuarial assumptions as of December 31, 2015 and 2014 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company					
			ABC		PNB		EIP	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Discount rate	**4.31% - 4.62%**	4.10% - 5.27%	**4.38%**	4.53%	**4.38%**	4.53%	**4.38%**	4.53%
Salary rate increase	**5.00% - 8.00%**	5.00% - 8.00%	**5.00%**	5.00%	**5.00%**	5.00%	–	–

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Less than one year	**₱330,098**	₱473,409	**₱325,319**	₱454,659
More than one year to five years	**1,632,402**	1,663,591	**1,599,833**	1,620,445
More than five years to 10 years	**3,371,760**	2,984,475	**3,291,709**	2,891,956
More than 10 years to 15 years	**4,557,857**	4,299,687	**4,421,078**	4,102,677
More than 15 years	**16,973,725**	3,850,317	**16,081,829**	3,614,751

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Cash and cash equivalents	**₱1,871,868**	₱1,351,299	**₱1,828,922**	₱1,318,530
Equity investments				
Financial institutions (Note 34)	**468,461**	723,663	**468,461**	720,709
Others	**13,382**	35,319	**5,263**	17,410
Debt investment				
Private debt securities	**1,050,312**	1,074,737	**1,026,929**	1,056,841
Government securities	**278,674**	308,021	**258,215**	292,613
Investment in UITFs (Note 34)	**175,228**	156,004	**175,228**	156,004
Loans and receivables	**4,006**	19,765	**4,006**	3,465
Interest and other receivables	**11,163**	9,413	**10,904**	9,144
	3,873,094	3,678,221	**3,777,928**	3,574,716
Accrued expenses	**(1,735)**	(2,737)	**(1,251)**	(1,238)
	₱3,871,359	₱3,675,484	**₱3,776,677**	₱3,573,478

All equity and debt investments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2015 and 2014 includes investments in the Parent Company shares of stock with fair value amounting to ₱468.5 million and ₱720.7 million, respectively. Investments in UITFs included in the fair value of plan assets as of December 31, 2015 and 2014 pertain to UITFs managed by the PNB Trust Banking Group (TBG).

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 all other assumptions were held constant:

	2015			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱685,868)**	**+1.00%**	**(₱670,812)**
	-1.00%	**800,477**	**-1.00%**	**782,231**
Salary increase rate	**+1.00%**	**723,151**	**+1.00%**	**705,298**
	-1.00%	**(635,942)**	**-1.00%**	**(620,886)**

	2014			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱652,015)	+1.00%	(₱634,885)
	-1.00%	765,225	-1.00%	744,541
Salary increase rate	+1.00%	748,047	+1.00%	728,821
	-1.00%	(654,855)	-1.00%	(637,858)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate, 1.00% decrement in the discount rate and a 10.00% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate, 1.00% increment in the discount rate and a 10.00% increase in the employee turnover rate but with reverse impact.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group and the Parent Company is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

30. **Leases**

Operating Leases

Group as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 32.18% 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 30 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

Rent expense charged against current operations (included in ‘Occupancy and equipment-related costs’ in the statements of income) amounted to ₱881.5 million in 2015, ₱856.3 million in 2014 and ₱820.3 million in 2013 for the Group, of which ₱719.8 million in 2015, ₱701.3 million in 2014 and ₱672.3 million in 2013 pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Within one year	**₱470,777**	₱546,418	**₱396,330**	₱418,022
Beyond one year but not more than five years	**781,652**	1,156,258	**671,367**	767,527
More than five years	**118,186**	111,790	**22,183**	34,350
	₱1,370,615	₱1,814,466	**₱1,089,880**	₱1,219,899

Group 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 fifteen years. Some leases include escalation clauses (such as 5.00% per year). In 2015, 2014 and 2013, total rent income (included under ‘Miscellaneous income’) amounted to ₱338.1 million, ₱634.4 million and ₱443.0 million, respectively, for the Group and ₱266.1 million, ₱364.0 million and ₱273.1 million, respectively, for the Parent Company (Note 28).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Within one year	**₱183,496**	₱120,394	**₱22,654**	₱28,059
Beyond one year but not more than five years	**169,379**	123,850	**12,110**	30,994
More than five years	**9,835**	11,709	**9,835**	11,709
	₱362,710	₱255,953	**₱44,599**	₱70,762

<u>Finance Lease</u>
Group as Lessor
Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group’s net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group'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	
	2015	2014	**2015**	2014
Within one year	**₱1,654,119**	₱1,470,290	**₱17,909**	₱14,120
Beyond one year but not more than five years	**1,984,772**	1,795,487	**35,900**	31,100
More than five years	**47,900**	58,500	**47,900**	58,500
Gross investment in finance lease contracts receivable (Note 10)	**3,686,791**	3,324,277	**101,709**	103,720
Less amounts representing finance charges	**62,206**	390,019	**62,206**	58,504
Present value of minimum lease payments	**₱3,624,585**	₱2,934,258	**₱39,503**	₱45,216

31. Income and Other Taxes

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

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

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be reduced by 33.00% of interest income subjected to final tax.

MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence. FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			**Parent Company**		
	2015	2014 (As Restated – Note 37)	2013 (As Restated – Note 37)	**2015**	2014	2013
Current						
Regular	**₱761,872**	₱772,169	₱695,951	**₱501,682**	₱652,067	₱604,240
Final	**543,084**	703,901	463,628	**512,401**	674,058	430,879
	1,304,956	1,476,070	1,159,579	**1,014,083**	1,326,125	1,035,119
Deferred	**314,598**	(108,782)	(7,984)	**782**	43,082	(648)
	₱1,619,554	₱1,367,288	₱1,151,595	**₱1,014,865**	₱1,369,207	₱1,034,471

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		**Parent Company**	
	2015	2014	**2015**	2014
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,852,727**	₱4,851,051	**₱4,695,139**	₱4,669,376
Accumulated depreciation on investment properties	**512,973**	551,609	**511,623**	549,171
NOLCO	**94,914**	252,461	**–**	–
Deferred reinsurance commission	**20,560**	3,850	**–**	–

(Forward)

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Net retirement liability	**₱16,474**	₱16,333	**₱–**	₱–
Excess of net provision for unearned premiums per PFRS over tax basis	**6,339**	8,248	**–**	–
Accrued expenses	**1,060**	10,094	**–**	–
Unrealized loss on AFS investments	**830**	–	**830**	–
Unrealized trading loss on FVPL	**10**	–	**–**	–
Provision for IBNR	**–**	18,000	**–**	–
MCIT	**–**	1,265	**–**	–
Unrealized foreign exchange losses	**–**	44	**–**	–
Others	**10,685**	10,442	**10,556**	10,442
	5,516,572	5,723,397	**5,218,148**	5,228,989
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,593,081**	2,061,668	**1,584,385**	2,052,971
Fair value adjustments due to business combination	**1,137,326**	1,223,767	**1,137,326**	1,223,767
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Unrealized foreign exchange gains	**578,555**	75,456	**577,007**	75,456
Temporary difference associated with investments in disposal group classified as held for sale	**91,299**	–	**–**	–
Unrealized trading gains on financial assets at FVPL	**53,132**	38,549	**53,132**	38,549
Lease income differential between finance and operating lease method	**21,646**	36,546	**–**	–
Deferred acquisition cost	**17,835**	16,654	**–**	–
Unrealized gains on AFS investments	**–**	2,025	**–**	2,029
Others	**113,687**	70,358	**97,914**	70,358
	4,342,997	4,261,459	**4,186,200**	4,199,566
	₱1,173,575	₱1,461,938	**₱1,031,948**	₱1,029,423

* *Balance includes DTL amounting to ₱736.4 million acquired from business combination*

The components of the Group's net deferred tax liabilities included in 'Other liabilities' (Note 22) follow:

	2015	2014
Deferred tax liability on:		
Fair value adjustments due to business combination	**₱148,338**	₱148,338
Accelerated depreciation on property and equipment	**6,106**	6,237
Rent receivables	**45**	66
Unrealized gains on AFS investments	**–**	32
	154,489	154,673
Deferred tax asset on:		
NOLCO	**–**	13,173
Allowance for impairment, credit and other losses	**1,904**	1,801
	1,904	14,974
	₱152,585	₱139,699

Benefit from (provision for) deferred tax charged directly to OCI during the year follows:

	Consolidated			Parent Company		
	2015	2014	2013	**2015**	2014	2013
Net unrealized losses (gains) on AFS investments	**₱2,887**	₱9,059	(₱464)	**₱2,859**	₱9,098	(₱8,933)
Remeasurement losses on retirement plan	**2,277**	9,334	3,253	**–**	–	–

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million and ₱2.6 million in 2015 and 2014, respectively. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱0.4 million and ₱0.1 million in 2015 and 2014, respectively.

Based on the three-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's net deferred tax assets of ₱2.3 billion and ₱5.2 billion as of December 31, 2015 and 2014, 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	
	2015	2014	**2015**	2014
Allowance for impairment and credit losses	**₱1,193,391**	₱1,640,999	**₱1,060,122**	₱1,601,551
Retirement liability	**778,925**	833,745	**778,925**	833,745
Unamortized past service cost	**551,466**	505,989	**551,466**	505,989
Accrued expenses	**426,911**	436,037	**424,956**	436,037
NOLCO	**426,193**	211,606	**–**	–
Unearned income	**112,500**	112,500	**112,500**	112,500
Derivative liabilities	**40,503**	13,279	**40,503**	13,279
Provision for IBNR	**19,500**	–	**–**	–
Others	**15,807**	80,660	**13,347**	12,389
	₱3,565,196	₱3,834,815	**₱2,981,819**	₱3,515,490

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	₱117,362	₱117,362	₱–	2015
2013	942,021	–	942,021	2016
2014	170,349	–	170,349	2017
2015	289,320	–	289,320	2018
	₱1,519,052*	₱117,362	₱1,401,690	

**Balance includes NOLCO amounting to ₱277,952 acquired from business combination*

The Group has net operating loss carryforwards for US federal tax purposes of USD6.2 million and USD5.9 million as of December 31, 2015 and 2014, respectively, and net operating loss carryforwards for California state tax purposes of USD4.1 million and USD3.7 million as of December 31, 2015 and 2014, respectively.

Unrecognized Deferred Tax Liabilities
As of December 31, 2015, there was a deferred tax liability of ₱788.2 million (₱551.6 million in 2014) for temporary differences of ₱2.6 billion (₱1.8 billion in 2014) 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.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2015	2014	2013	**2015**	2014	2013
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(4.62)**	(6.05)	(5.16)	**(5.10)**	(7.20)	(5.17)
Non-deductible expenses	**10.14**	16.34	7.43	**8.12**	23.14	7.15
Optional standard deduction	**(0.38)**	0.02	(0.27)	**–**	–	–
Tax-exempt income	**(6.85)**	(7.09)	(19.14)	**(8.17)**	(8.14)	(18.83)
Tax-paid income	**(3.77)**	(4.14)	(0.14)	**(3.15)**	(3.54)	0.24
Net unrecognized deferred tax assets	**(3.66)**	(8.65)	5.66	**(7.67)**	(10.61)	2.74
Effective income tax rate	**20.86%**	20.43%	18.38%	**14.03%**	23.65%	16.13%
Continuing operations	**20.31%**	19.80%	17.91%			
Discontinued operations	**0.55**	0.63	0.47			
	20.86%	20.43%	18.38%			

Current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. EAR are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱86.1 million in 2015, ₱151.4 million in 2014, and ₱214.9 million in 2013for the Group, and ₱72.8 million in 2015, ₱126.7 million in 2014, and ₱174.1 million in 2013 for the Parent Company (Note 28).

32. Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Earnings per share attributable to equity holders of the Parent Company:

	2015	2014	2013
a) Net income attributable to equity holders of the Parent Company	**₱6,113,508**	₱5,358,669	₱5,146,315
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,020**	1,163,938	1,067,822
c) Basic/Diluted earnings per share (a/b)	**₱4.89**	₱4.60	₱4.82

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2015	2014	2013
a) Net income attributable to equity holders of the Parent Company	**₱5,827,163**	₱5,147,341	₱4,988,971
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,020**	1,163,938	1,067,822
c) Basic/Diluted earnings per share (a/b)	**₱4.67**	₱4.42	₱4.67

As of December 31, 2015, 2014 and 2013, there are no potential common shares with dilutive effect on the basic earnings per share.

33. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱78.7 billion and ₱65.8 billion as of December 31, 2015 and 2014, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱747.8 million and ₱711.8 million (included under 'AFS Investments') as of December 31, 2015 and 2014, respectively, are deposited with the BSP in compliance with trust regulations.

Trust fee income in 2015, 2014 and 2013 amounting to ₱256.2 million, ₱230.1 million and ₱189.9 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 ₱16.6 million, ₱13.6 million and ₱9.5 million in 2015, 2014 and 2013, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital. In 2013, an additional ₱136.3 million was transferred by the Parent Company from surplus to surplus reserve which corresponds to reserves allotted to the trust business acquired from ABC.

34. Related Party Transactions

Regulatory Reporting

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

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2015	2014	**2015**	2014
Total Outstanding DOSRI Accounts*	**₱7,681,274**	₱12,749,637	**₱7,681,274**	₱12,749,637
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.14%**	4.20%	**2.36%**	4.48%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.14%**	4.20%	**2.36%**	4.48%
Percent of DOSRI accounts to total loans	**2.14%**	4.20%	**2.36%**	4.48%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.01%	**0.02%**	0.01%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.01%**	0.00%	**0.01%**	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.01%**	0.00%	**0.01%**	0.00%

**Includes outstanding unused credit accommodations of ₱291.5 million as of December 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.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2015		
Significant Investors			
Deposit liabilities		**₱230,659**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
Interest expense	**₱16,406**		Interest expense on deposits
Net withdrawals	**4,743,187**		Net withdrawals during the period
Subsidiaries			
Receivables from customers		**1,878,667**	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 3.00% maturity of three months; Unsecured
Loan commitments		**566,497**	Money market line; pre-settlement risk
Interbank loans receivable		**158,192**	Foreign currency-denominated interbank term loans with interest rates ranging from 0.03% to 0.35% and maturity terms ranging from 15 to 150 days
Availments	**1,041,975**		
Settlements	**940,815**		
Due from other banks		**504,201**	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%.
Accrued interest receivable		**3,923**	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		**5,967,054**	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 2.35%; Foreign currency-denominated time deposits with annual interest rates ranging from 0.62% to 1.25% and maturity terms of 30 days.
Bills payable		**1,902,466**	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.50% and maturity terms ranging from 30 to 365 days
Availments	**3,296,949**		
Settlements	**3,648,952**		
Due to other banks		**252,997**	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		**25,066**	Accrued interest on deposit liabilities and bills payable
Rental deposit		**10,637**	Advanced rental and security deposits received for two and three months
Other liabilities		**2**	Various manager's check related to premium insurance
Interest income	**57,385**		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	**112,529**		Interest expense on deposit liabilities and bills payable
Rental income	**61,616**		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Dividend income	**180,000**		Cash dividends
Fees and commission income	**130,082**		Income from client referrals and professional fees on service agreements with Legal Group
Miscellaneous income	**716,247**		Proceeds from fire insurance claims on the Ever Gotesco property
Securities transactions			
Purchases	**3,141,507**		Outright purchase of securities
Sales	**3,410,775**		Outright sale of securities
Trading gains	**287**		Gain from sale of investment securities
Loan releases	**5,650,750**		Loan drawdowns
Loan collections	**9,982,760**		Settlement of loans and interest
Net deposits	**2,045,599**		Net deposits during the period

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2015		
Affiliates			
Receivables from customers		**₱18,168,623**	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00%, maturity terms ranging from 90 days to 12 years and payment terms ranging from monthly to quarterly payments.
Loan commitments		**6,340,087**	Term loan with maturity in 2023; various short-term lines with expiry in 2016; counterparty line
Investment in non-marketable equity securities		**269,719**	Common shares with acquisition costs ranging from ₱5.0 to ₱100.0 per share
Sales contract receivable		**2,047,347**	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity term of five years
Due from other banks		**3,994,475**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest receivable		**27,861**	Accrued interest on receivables from customers
Rental deposits		**10,346**	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		**7,418,850**	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 1.50%; Peso-denominated and foreign currency-denominated time deposits with annual interest rates ranging from 0.88% to 1.75% and maturity terms ranging from 30 days to 365 days.
Accrued interest payable		**57,058**	Accrued interest payable from various deposits
Other liabilities		**666**	Various manager's check related to EIP and premium insurance
Rental income	**₱27,152**		Rental income on operating lease with term of 10 years
Rental expense	**51,006**		Rent payments on operating leases with term ranging from 24 to 240 months
Interest income	**337,899**		Interest income on receivable from customers
Interest expense	**35,288**		Interest expense on deposit liabilities
Gain on sale of investment properties	**369,000**		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Service fees and commission income	**136,908**		Income on insurance premiums collected
Service fees and commission expense	**22,245**		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	**1,216**		Outright purchase of securities
Sales	**1,216**		Outright sale of securities
Loan releases	**15,858,440**		Loan drawdowns
Loan collections	**8,888,360**		Settlement of loans and interest
Net deposits	**1,329,040**		Net deposits during the period
Key Management Personnel			
Loans to officers		**16,998**	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan releases	**3,170**		Loan drawdowns
Loan collections	**2,246**		Settlement of loans and interest
Other expenses	**2,910**		Payment of legal fees

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2015		
Transactions of subsidiaries with other related parties			
Receivable from customers		**₱80,000**	Short-term loan with interest rate of 3.00% with maturity of three months
Accrued interest receivable		**44**	Interest accrual on receivables from customers
Investment in marketable equity securities		**39,898**	Various investments under management account placed with the TBG; composed of cash assets, deposits with the Parent Company, deposits with other banks and AFS government securities
Bills payable		**80,000**	Peso-denominated bills payable with interest rate of 3.00% and maturity of three months
Accrued interest payable		**90**	Accrued interest payable on bills payable
Interest income	**₱8,514**		Interest income on receivable from customers
Interest expense	**2,299**		Interest expense on bills payable
Net insurance premiums	**4,623**		Income on insurance premiums collected
Net insurance benefits and claims	**3,497**		Claims expense, comprehensive insurance, service and referral fees

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2014		
Significant Investors			
Deposit liabilities		₱4,973,846	Peso-denominated savings deposits with annual rates ranging from 1.56% to 1.75%
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	Demand and savings deposits with annual rates ranging from 0.02% to 3.00%; time deposits with maturity terms ranging from 30 days to 365 days
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	Foreign currency-denominated clearing accounts used for 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 three year lease agreement, with escalation rate of 10.00% per annum

(Forward)

Category	2014 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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
Rental deposits		37,181	Advance rentals and security deposits received for three months and two years
Deposit liabilities		6,089,810	With annual rates ranging from 0.02% to 1.73% including time deposits with maturity terms ranging from 30 days to 365 days
Other liabilities		36,978	Advance 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 on operating lease with term of 10 years
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
Net insurance premiums	170		Income on insurance premiums collected
Net insurance benefits and claims	4,024		Claims expense, comprehensive insurance, 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

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2015 and 2014 in relation to amounts due from related parties.

<u>Outsourcing Agreement between the Parent Company and PNB GRF</u>
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 wherein 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 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, will 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.

Financial Assets at FVPL traded through PNB Securities
As of December 31, 2015 and 2014, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with fair value of ₱199.7 million and ₱210.5 million, respectively. The Parent Company recognized trading gains amounting to ₱7.2 million in 2015, ₱19.5 million in 2014 and ₱35.1 million in 2013 from the trading transactions facilitated by PNB Securities.

Investment in OHBVI
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.

VMC Convertible Notes and Common Shares
As of December 31, 2013, the Parent Company holds convertible notes with face amount of ₱353.4 million, recorded under 'Unquoted debt securities' and 161,978,996 common shares, recorded under 'AFS investments', issued by VMC, an affiliate of the Group. Each of the investment has a carrying value of ₱1.0 (one peso). In March 2014, VMC redeemed a portion of the convertible notes for a total price of ₱330.3 million, the same amount of gain was recorded under 'Interest income' in the statement of income of the Parent Company. In April 2014, the Parent Company sold the remaining convertible notes to LTG at ₱3.5 for every ₱1.0 convertible note. The Parent Company recognized a gain on sale of convertible notes amounting to ₱608.4 million, booked under 'Miscellaneous income' in the statement of income of the Parent Company (Note 28). Also in April 2014, the Parent Company sold its investment in common shares of VMC to LTG, at current market price of ₱4.5 per share resulting in a gain of ₱735.4 million recorded under 'Trading and investment securities gains - net' in the statement of income. 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		
	2015	2014	2013	**2015**	2014	2013
Short-term employee benefits (Note 20)	**₱665,812**	₱524,193	₱366,873	**₱589,199**	₱459,759	₱316,922
Post-employment benefits	**53,167**	47,844	47,381	**51,365**	47,844	47,381
	₱718,979	₱572,037	₱414,254	**₱640,564**	₱507,603	₱364,303

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 2015 and 2014, total per diem given to the BOD amounted to ₱42.0 million and ₱44.3 million, respectively, recorded in 'Miscellaneous expenses' in the statement of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies.

Joint Arrangements
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 'Other assets' and with carrying values of ₱1.2 billion. EPPI and the Parent Company are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These joints arrangements qualify as joint operations under PFRS 11.

Outsourcing Agreement between the Parent Company and PNB SB
PNB SB entered into a "Deed of Assignment" with the Parent Company for the purchase, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total carrying value of ₱5.0 billion and ₱6.0 billion on July 15, 2015 and January 8, 2014, respectively. The purchase includes the assignment of the promissory notes and other relevant credit documents as well as collateral/s and other accessory contract thereto and was implemented in tranches in various dates.

The total consideration paid for the purchased loans amounted to ₱5.0 billion and ₱6.0 billion, respectively and recognized gain of ₱24.4 million and nil, respectively.

PNB SB and the Parent Company entered into a servicing agreement pertaining to the purchased loan portfolio. The agreement shall be valid and binding until terminated by the either party if so required by the BSP or upon a 60-day prior written notice to the other party. As to the amount of service fee, the Parent Company shall charge PNB SB with the same amount PNB SB charges it customers. The Parent Company recognized service fee income of ₱14.5 million and ₱3.5 million in 2015 and 2014, respectively.

Service charges pertain to outsourced services rendered by the Parent Company, including legal and information technology services. These are payable on a monthly basis.

PNB SB has an available credit line with the Parent Company amounting to ₱300.0 million. As of December 31, 2015 and 2014, respectively, the credit line remains undrawn.

Claim from PNB Gen
In 2015, the Parent Company recognized income amounting to ₱716.2 million under 'Miscellaneous income' arising from the fire insurance claims of the Parent Company from PNB Gen involving the Ever Gotesco Grand Central ('Insured Property') which was mortgaged to the Parent Company by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively 'Ever Gotesco Group') to secure certain credit accommodations . The insurable interest of the Parent Company (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on

March 19, 2012, which justified the payment by PNB Gen of the insurance claims of the Parent Company, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

Transactions with Retirement Plans
Management of the retirement funds of the Group and the Parent Company is handled by the 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 December 31, 2015 and 2014, respectively.

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

	Consolidated		**Parent Company**	
	2015	2014	**2015**	2014
Investment in PNB Shares	**₱468,461**	₱720,709	**₱468,461**	₱720,709
Deposits with PNB	**342,767**	40,291	**342,722**	37,935
Investment in UITFs	**166,258**	156,004	**153,857**	156,004
Total Fund Assets	**₱977,486**	₱917,004	**₱965,040**	₱914,648
Unrealized loss on PNB shares	**(₱252,248)**	(₱30,945)	**(₱252,248)**	(₱30,945)
Interest income	**13,427**	991	**11,188**	989
	(238,821)	(29,954)	**(241,060)**	(29,956)
Trust fees	**(4,854)**	(3,870)	**(4,577)**	(4,714)
Fund Loss	**(₱243,675)**	(₱33,824)	**(₱245,637)**	(₱34,670)

As of December 31, 2015 and 2014, the retirement fund of the Group and the Parent Company include 9,008,864 PNB shares and 7,833,795 PNB shares classified as held-for-trading. 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.

35. Provisions, Contingent Liabilities and Other Commitments

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

NSC Loan
As discussed in Note 10, in 2004, the Parent Company sold the outstanding loans receivable of ₱5.3 billion from National Steel Corporation (NSC) to SPV companies under the provisions of RA No. 9182. On October 10, 2008, simultaneous to the denial of their application in the Philippine courts for injunctive relief, the SPV companies filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC"). Mainly, the SPV companies claimed damages and a suspension of payments on the ground that the consortium of banks (the banks) and the Liquidator breached a duty to settle pre-closing real estate taxes (taxes due as of October 14,

2004) due on the NSC Plant Assets and to deliver to them titles to NSC's Plant Assets free from all liens and encumbrances. However, the banks and the Liquidator dispute the assertions that pre-closing taxes were in arrears, invoking under an installment agreement executed between the Liquidator and the City of Iligan. As part of the agreement to sell the plant assets to the SPV companies, the Liquidator assumed responsibility of settling and paying the Plant Assets' pre-closing real estate taxes, while the SPV companies assumed the responsibility of updating the post-closing taxes (taxes due after October 14, 2004). Consequently, all pre-closing real estate taxes due on the plant assets have been paid in accelerated basis on December 18, 2008.

On October 13, 2008, after the commencement of the arbitration but before the arbitral panel was constituted, the SPV companies filed, as a preservatory measure, a petition for injunctive relief against the NSC Liquidator, NSC Secured Creditors, and NSC Stockholders so that the arbitration proceedings under SIAC will not be rendered moot. On October 14, 2008, the Singapore High Court granted the petition and restrained the NSC Liquidator, the NSC Secured Creditors and the NSC Shareholders, jointly and severally, substantially from declaring the SPV companies in default and declaring all installments due until the arbitration proceeding at the SIAC is settled.

Thereafter, upon application by the Parent Company for a variation of the injunction and an order of the Singapore High Court, the SPV companies remitted ₱750.0 million cash in place of the Standby Letter of Credit which they undertook to provide under the Asset Purchase Agreement, subject to the condition that the amount shall not be subject to any set-off pending an award from the arbitration proceedings.

On January 26, 2009, the Parent Company applied for an Order to compel the SPV companies to issue another Standby Letter of Credit of ₱1.0 billion which they likewise undertook to provide under the Asset Purchase Agreement, but this application was denied on March 5, 2009 by the Singapore High Court. The denial of the second variation (the ₱1.0 billion Standby Letter of Credit) was elevated to the Court of Appeals of Singapore but the same was also denied on September 11, 2009, without prejudice, however, to resort to the same reliefs before the Arbitration Panel.

In April 2010, the Arbitral Panel was constituted. The Parent Company filed therein an application to discharge or vary the injunction. On July 7, 2010, the Arbitration Panel issued a ruling denying the Parent Company's application for a discharge of the injunction issued by the Singapore High Court, while no ruling was made on the application to vary the injunction order.

Consequently, the main issues for alleged breach of the Asset Purchase Agreement, damages and suspension of payments were heard before the Arbitration Panel. On May 9, 2012, the Arbitration Panel issued a Partial Award in favor of the SPV companies, including such reliefs as payment of a certain sum of money and transfer of clean titles on the plant assets under the name of NSC by the bank consortium and the NSC Liquidator in favor of the SPV companies. The Parent Company, one of the members of the consortium, holds a forty-one percent (41.00%) interest in the claim, and has already set aside the appropriate reserve provision for the same.

Meanwhile, on July 9, 2012, the bank consortium filed with the Singapore High Court a Petition to Set Aside the Partial Award rendered by the Arbitration Panel.

On July 31, 2014, the Singapore High Court issued a Judgment in favor of the bank consortium setting aside the Arbitral Award in its entirety. On September 01, 2014, the SPV companies filed before the Singapore Court of Appeal a Notice of Appeal. On January 26, 2015, the case was heard.

The Singapore High Court set aside in its entirety the Award of the Arbitral Tribunal. Global Steel appealed the Decision of the Singapore High Court. On March 31, 2015, the Singapore Court of Appeal issued a Decision upholding in part the earlier Decision of the High Court, i.e., setting aside the monetary portions of the Arbitral Award that rendered the Bank Consortium/Secured Creditors not liable for certain sums of money by way of damages.

Movements of provisions for legal claims both for the Group and the Parent Company are as follows:

	2015	2014
Balance at beginning of the year	**₱1,640,648**	₱1,582,080
Provisions (reversals) during the year (Note 16)	**(741,911)**	58,568
Balance at the end of the year	**₱898,737**	₱1,640,648

Tax Assessment

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

BSP Reporting

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

	Consolidated		**Parent Company**	
	2015	2014	**2015**	2014
Trust department accounts (Note 33)	**₱78,708,656**	₱65,817,031	**₱78,708,656**	₱65,817,031
Derivative forwards	**32,378,255**	14,510,895	**26,907,910**	12,024,515
Standby letters of credit	**22,031,604**	11,281,048	**21,916,691**	11,117,621
Deficiency claims receivable	**21,562,415**	21,292,747	**21,541,459**	21,276,212
Credit card lines	**15,725,684**	13,996,427	**15,725,684**	13,996,427
Interest rate swaps	**9,317,880**	14,141,390	**9,317,880**	14,141,390
Derivative spots	**5,526,044**	4,420,167	**5,526,044**	4,420,167
Other credit commitments (Note 9)	**974,377**	974,377	**974,377**	974,377
Inward bills for collection	**356,152**	676,610	**248,839**	675,050
Outward bills for collection	**320,428**	430,230	**89,201**	91,333
Other contingent accounts	**298,336**	326,693	**296,174**	298,329
Confirmed export letters of credit	**88,409**	490,015	**88,409**	490,015
Unused commercial letters of credit	**48,957**	44,280	**48,957**	44,280
Shipping guarantees issued	**10,033**	32,732	**10,033**	32,732
Items held as collateral	**42**	51	**31**	37

36. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

2015						
				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
	[a]	[b]	[c]	[d]		[e] = [c]-[d]
Securities held under agreements to resell (Notes 8)*	₱14,550,000	₱–	₱14,550,000	₱–	₱14,516,223	₱33,777

* *Included in bills and acceptances payable in the statements of financial position*

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
	[a]	[b]	[c]	[d]		[e] = [c]-[d]
Derivative assets (Notes 9 and 23)	₱1,083,714	₱–	₱1,083,714	₱50,360	₱–	₱1,033,354

Financial liabilities

2015						
				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
	[a]	[b]	[c]	[d]		[e] = [c]-[d]
Derivative liabilities (Note 18)	₱216,636	₱–	₱216,636	₱465	₱250,830	₱–
Securities held under agreements to resell (Notes 9 and 19)*	12,806,499	–	12,806,499	–	15,941,143	–
Total	₱13,023,135	₱–	₱13,023,135	₱465	₱16,191,973	₱–

* *Included in bills and acceptances payable in the statements of financial position*

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
	[a]	[b]	[c]	[d]		[e] = [c]-[d]
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	₱625	₱17,352,674	₱38

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

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

On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of Parent Company.

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

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of PNB LII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of PNB LII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The Parent Company reclassified the cost of the investment in PNB LII to be sold as 'Assets of disposal group classified as held for sale' in the parent company statement of financial position.

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

The results of operation of PNB LII are presented below:

	Years Ended December 31		
	2015	2014	2013
Interest Income on			
Loans and receivables	**₱20,343**	₱18,707	₱13,880
Trading and investment securities	**443,116**	396,586	269,429
Deposits with banks and others	**3,504**	323	10,072
	466,963	415,616	293,381
Interest Expense on			
Bills payable and other borrowings	**–**	–	5,417
Net Interest Income	**466,963**	415,616	287,964
Net Service Fees and Commission Expense	**(281,639)**	(335,635)	(329,249)

(Forward)

	Years Ended December 31		
	2015	2014	2013
Net insurance premiums	**₱1,716,308**	₱1,604,500	₱1,444,719
Net insurance benefits and claims	**1,290,439**	1,191,359	1,032,953
Net Insurance premiums	**425,869**	413,141	411,766
Other Income			
Trading and investment securities gains – net	**20,874**	14,661	1,750
Foreign exchange gains (losses) – net	**11,806**	(1,999)	5,317
Miscellaneous	**149,061**	101,111	100,317
Total Operating Income	**792,934**	606,895	477,865
Operating Expenses			
Compensation and fringe benefits	**223,322**	166,757	114,799
Taxes and licenses	**39,570**	36,544	26,666
Provision for impairment, credit and other losses	**32,765**	–	–
Depreciation and amortization	**10,704**	14,039	15,147
Occupancy and equipment-related costs	**9,764**	9,196	13,101
Miscellaneous	**74,573**	73,026	81,029
Total Operating Expense	**390,698**	299,562	250,742
Income from Discontinued Operations before Income Tax	**402,236**	307,333	227,123
Provision for income tax			
Regular	**5,839**	5,084	3,584
Final	**38,466**	38,088	26,859
	44,305	43,172	30,443
Net Income from Discontinued Operations	**₱357,931**	₱264,161	₱196,680
Attributable to:			
Equity holders of the Parent Company	**₱286,345**	₱211,328	₱157,344
Non-controlling interests	**71,586**	52,833	39,336
	₱357,931	₱264,161	₱196,680

Earnings per share attributable to equity holders of the Parent Company from discontinued operations are computed as follows:

	2015	**2014**	**2013**
a) Net income attributable to equity holders of the Parent Company	**₱286,345**	**₱211,328**	**₱157,344**
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,020**	**1,163,938**	**1,067,822**
c) Basic earnings per share (a/b)	**₱0.23**	₱0.18	₱0.15

The net cash flows directly associated with disposal group follow:

	2015	2014	2013
Net cash provided by operating activities	**₱1,210,588**	₱1,535,951	₱101,961
Net cash used in investing activities	**(903,161)**	(1,395,508)	(8,030)

The major classes of assets and liabilities of PNB LII classified as disposal group held for sale to equity holders of the Parent as of December 31, 2015 are as follows:

Assets	
Cash and other cash items	₱642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	
Government securities	2,485,902
Private debt securities	3,604,065
Equity securities	1,378,686
HTM investments	
Government securities	1,269,398
Other receivables	
Accounts receivable	277,479
Accrued interest receivable	101,925
Sales contract receivable	57,806
Property and equipment – net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	₱23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	₱13,725,321
Accrued taxes, interest and other expenses	161,817
Other liabilities	
Insurance contract liabilities	6,837,144
Accounts payable	74,303
Retirement benefit liability	21,822
Withholding taxes payable	10,139
Miscellaneous liabilities	622,075
Liabilities of disposal group classified as held for sale	₱21,452,621
Reserves	
Net unrealized gain on AFS investments	₱617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	₱593,237

38. **Notes to Statements of Cash Flows**

The Group applied creditable withholding taxes against its income tax payable amounting to ₱504.0 million, ₱582.6 million and ₱132.7 million in 2015, 2014 and 2013, respectively. In 2013, the Group applied MCIT against its income tax payable amounting to ₱468.5 million.

In 2015, the Group classified PNB LII as disposal group held for sale and as discontinued operation and classified assets, liabilities, and reserves of PNB LII amounting to ₱23.5 billion, ₱21.5 billion, and ₱0.6 billion, respectively, as held for sale.

In 2015, the Group transferred investment properties with a carrying value of ₱2.0 billion and ₱1.2 billion to property and equipment and to Other Assets (presented as 'Real Estate Investments Held under Development'), respectively.

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 properties while ₱74.0 million were reclassified by the Group from investment properties to property and equipment (Notes 11 and 13).

For the Group, investment properties acquired through foreclosure and rescission amounted to ₱.5 billion, P1.3 billion and ₱2.4 billion in 2015, 2014 and 2013, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission amounted to ₱.4 billion, ₱1.2 billion, and ₱2.2 billion in 2015, 2014 and 2013, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱352.4 million, ₱648.9 million and ₱417.3 million for the years ended December 31, 2015, 2014 and 2013, 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. Interest income also includes fair value amortization of loans and receivables amounting to ₱16.9 million, ₱27.5 million and ₱29.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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. Interest expense also includes fair value amortization of deposit liabilities amounting to ₱80.4 million, ₱249.7 million and ₱186.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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.

39. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on March 2, 2016.

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 2015 (in absolute amounts).

1. Taxes and licenses

	Amount
Documentary stamp taxes	₱331,509,851
Gross receipts tax	971,651,542
Real estate tax	127,450,345
Local taxes	47,205,606
Others	245,603,586
	₱1,723,420,930

2. Withholdings taxes

	Remitted	Outstanding
Withholding taxes on compensation and benefits	₱992,387,117	₱164,164,542
Final income taxes withheld on interest on deposits and yield on deposit substitutes	266,588,280	31,424,762
Expanded withholding taxes	147,252,368	17,042,879
VAT withholding taxes	2,934,221	269,435
Other final taxes	25,100,879	4,977,856
	₱1,434,262,865	₱217,879,474

Tax Cases and Assessments
As of December 31, 2015, 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.

SGV
Building a better
working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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 (the Group) as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 and have issued our report thereon dated March 2, 2016. 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 financial statements and supplementary schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5321647, January 4, 2016, Makati City

March 2, 2016

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2015

PART I

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
SCHEDULE A
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2015
(In thousands)

Retained Earnings, January 1, 2015 as unadjusted		**₱16,019,048**
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	(5,128,729)	
Deferred tax assets	(2,906,492)	
Translation adjustment applied to deficit on quasi-reorganization	(1,626,430)	
Accretion on impaired loans	(1,607,220)	
Accumulated equity in net earnings applied to deficit on quasi-reorganization	(563,048)	
Unrealized foreign exchange loss	94,480	
	(19,429,247)	
		(19,429,247)
Retained Earnings, as adjusted, beginning		**(3,410,199)**
Add: Net income per audited financial statements	**6,216,693**	
Less: Non-actual/unrealized income net of tax		
Unrealized foreign exchange gain- net (except those attributable to cash and cash equivalents)	2,017,837	
Accretion on impaired loans	216,973	
Fair value adjustment on foreclosed properties - net gain	152,553	
Accretion on off-market transactions - sales contract receivables	64,701	
Sub-total	**2,452,064**	
Add: Non-actual losses		
Unrealized loss on mark-to-market on trading and investment securities	898,204	
Deferred tax assets	782	
Sub-total	**898,986**	
Net income actually earned/ realized during the period		**4,663,615**
Less: Appropriations to surplus reserves		**(16,643)**
Total Retained Earnings, End Available for Dividend, December 31, 2015		**₱1,236,773**

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE B
EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PFRS IN COMPLIANCE WITH SRC RULE 68, AS AMENDED
DECEMBER 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		**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			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS Reclassification of Financial Assets	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	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: Investment Entities			✓	
	Amendments to PFRS 10: Transition Guidance	✓			
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓	
	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	✓			
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓	
PFRS 13	Fair Value Measurement	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts			✓	
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendments to PAS 1: Capital Disclosures	✓			
	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	✓			
	Amendments to PAS 1: Disclosure Initiative				✓
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 Contributions	✓			
	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	✓			
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓	

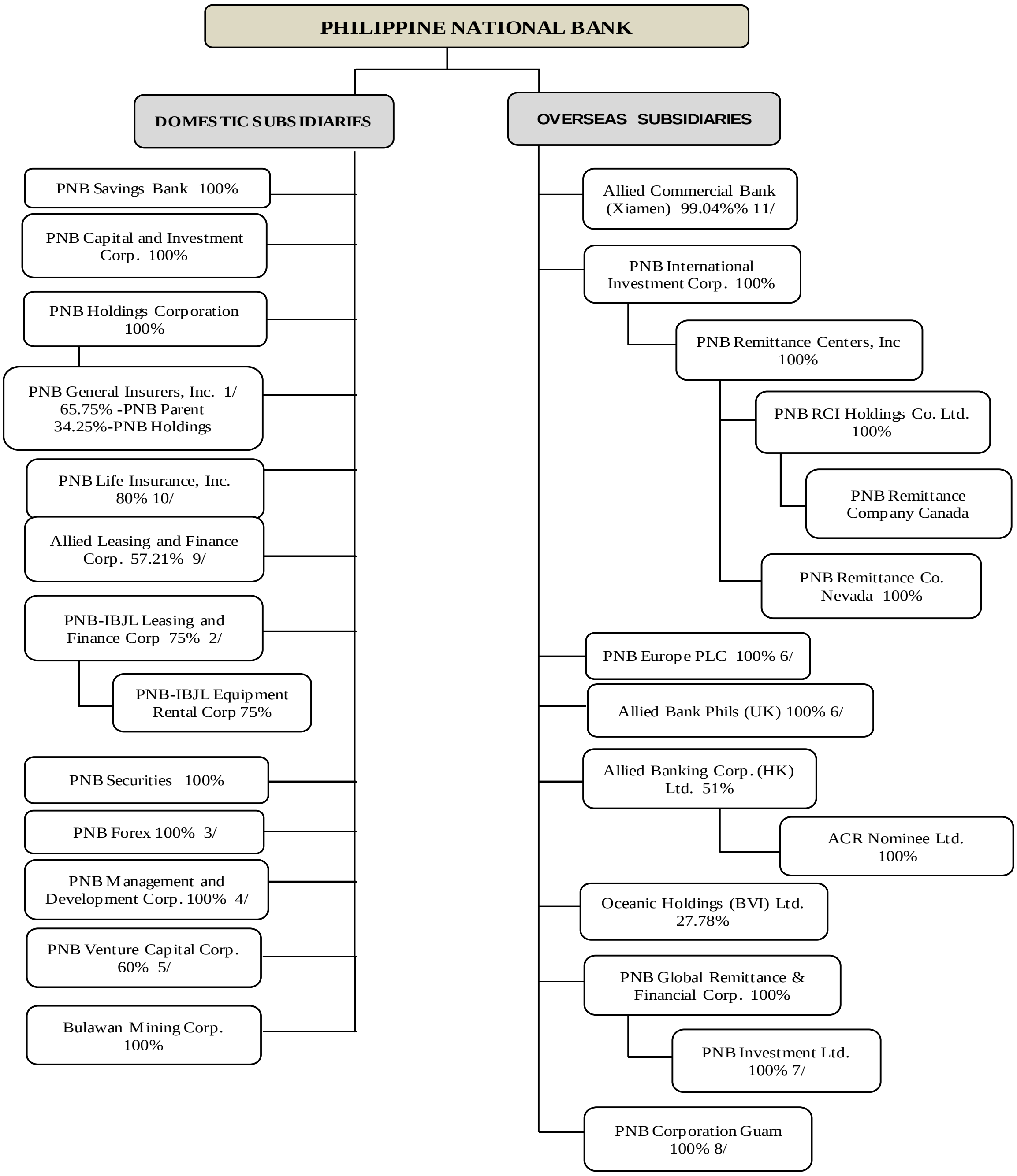
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture				✓
PAS 29	Financial Reporting 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	✓			
	Amendments to PAS 40: Investment Property	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 41	Agriculture			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
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-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 1,2016 will be adopted by the Group as they become effective.

PART I

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
AS OF DECEMBER 31, 2015



1/ The remaining 34% is owned by PNB Holdings.
2/ Percent ownership reduced from 90% to 75% effective January 2015.
3/ For dissolution, awaiting BIR clearance.
4/ Mining rights under deed of assignment with Macroasia.
5/ Under trust agreement with PNB Trust Banking Group.
6/ Merged on April 2, 2014, with PNB Europe as the surviving unit.
7/ For de-registration/liquidation. Awaiting for tax clearance, a SEC requirement for de-registration.
8/ Ceased operations on June 30, 2012 but business license/books are active/open due to pending legal cases.
9/ Winding down operations effective January 1, 2016
10/ Investment in PNB LII has been classified as held for sale following the approval of the Parent Company's BOD of the sale of 51.00% of its ownership interest to Allianz SE.
11/ Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 20015, respectively. On November 27, 2015, the Parent company purchased 8.63% ownership interest from individual stockholders.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2015

Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands, except for 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 based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities				
Development Bank of the Philippines	–	₱–	₱–	₱5
Philippine Fixed Rate Treasury Notes	–	2,608,366	2,731,444	164,595
Power Sector Assets & Liability Management Corporation	–	4,706	5,429	374
Republic of the Indonesia	–	94,120	91,578	1,281
Republic of the Philippines (ROP) Bonds	–	448,680	465,325	17,971
Philippine Retail Treasury Bonds	–	647,153	672,487	35,077
Philippine Treasury Bills	–	1,963	1,951	–
US Treasury Notes	–	–	–	54
	–	**3,804,988**	**3,968,214**	**219,357**
Private Debt Securities				
Ayala Land Inc	–	7,800	7,919	550
Filinvest Development Cayman Islands	–	80	84	1,287
Filinvest Land Inc	–	–	–	5
International Container Terminal Services Inc	–	56,472	64,123	4,028
SM Investments Corporation	–	69,960	71,674	2,503
SM Primeholdings Inc	–	–	–	110
	–	**134,312**	**143,800**	**8,483**
Equity Securities				
Alliance Global Group Inc	410,000	–	6,601	–
Ayala Corporation	9,000	–	6,804	–
Ayala Land Inc	428,500	–	14,762	–
Banco de Oro – EPCI Inc	65,000	–	6,825	–
Bank of the Philippine Islands	20,000	–	1,677	–
Belle Corporation	520,000	–	1,513	–
Bloomberry Resorts Corporation	1,400,000	–	6,356	–
Cebu Air Inc	5,000	–	412	–
DMCI Holdings Inc	580,400	–	8,010	–
East West Banking Corporation	143,050	–	2,709	–
EEI Corporation	138,000	–	745	–
Emperador Inc	150,000	–	1,342	–
Filinvest Land Inc	3,200,000	–	5,792	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
First Gen Corporation	140,000	₱–	₱3,164	₱–
First Philippine Holdings Corporation	61,290	–	3,987	–
Forest Hills Golf and Country Club	1	–	170	–
Global Ferro	31,127	–	21	–
GT Capital Holdings Inc	4,000	–	5,280	–
International Container Terminal Services Inc	120,000	–	8,436	–
Lopez (Benpres) Holdings Corporation	150,000	–	990	–
Megaworld Corporation	1,950,000	–	8,288	–
Metro Pacific Investments	3,118,000	–	16,214	–
Metropolitan Bank & Trust Co	50,000	–	4,025	–
Petroenergy Resources Corporation	6,289	–	22	–
Petron Corporation	880,000	–	6,151	–
Philex Mining Corporation	244,000	–	1,074	–
PLDT Common Shares	7,500	–	15,450	–
PNOC EDC	1,230,000	–	7,626	–
Puregold Price Club Inc	230,000	–	7,981	–
Resorts World Manila	890,000	–	3,916	–
Robinsons Retail Holdings Inc	70,000	–	4,410	–
San Miguel Purefoods	42,500	–	5,482	–
Security Bank Corporation	55,000	–	7,810	–
SM Investments Corporation	2,340	–	2,022	–
Universal Rightfield Properties	2,883,000	–	69	–
Universal Robina Corporation	127,880	–	23,786	–
	19,361,877	**–**	**199,922**	**–**
Derivatives				
Australia and New Zealand Bank Manila	–	2,600,985	11,354	–
Banco de Oro Universal Bank	–	3,547,425	14,530	–
Bank of East Asia	–	658,840	43	–
Bank of Tokyo – Mitsubishi Manila	–	379,095	2,044	–
Bank of the Philippine Islands	–	994,970	6,183	
BNP Paribas Paris	–	61,640	226	–
Chinatrust Philippines Commercial Bank Corporation	–	2,459,080	9,436	–
Citibank N.A. Manila	–	946,670	3,437	–
Den Norske Bank as Oslo	–	18,824	7	–
Deutsche Bank Ag Manila	–	1,556,165	3,273	–
Hong Kong and Shanghai Banking Corporation Manila	–	1,600,295	228	–
Maybank Philippines Inc	–	472,430	1,435	–
Metropolitan Bank and Trust Company	–	2,173,815	8,857	–
Overseas-Chinese Banking Corporation Singapore	–	47,060	99	–
Philippine Bank of Communications	–	47,100	43	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Philippine Long Distance Company	–	₱2,329,470	₱49,447	₱–
Republic of the Philippines	–	14,419	63,332	–
Rizal Commercial Banking Corporation	–	474,050	1,670	–
Robinsons Bank Corporation	–	47,130	73	–
Seaoil Philippines Inc – FXBT	–	302,672	531	–
Security Bank Corporation	–	70,695	109	–
Standard Chartered Bank London	–	382,286	129	–
Standard Chartered Bank Manila	–	94,120	35	–
United Coconut Planters Bank	–	1,228,428	3,884	–
United Overseas Bank Singapore	–	658,840	306	–
Wells Fargo – San Francisco	–	299,506	637	–
	–	**23,466,010**	**181,348**	**–**
Designated at FVPL				
Unit Investment Trust Fund – PNB Peso Money Market Fund	**15,381,948**	**17,000**	**17,261**	**–**
Total Financial Assets at Fair Value through Profit or Loss	**34,743,825**	**₱27,422,310**	**₱4,510,545**	**₱227,840**

Available-for-Sale (AFS) Securities
(Amounts in thousands, except for 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 based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities				
Bangko Sentral ng Pilipinas	–	₱20,177	₱20,176	₱2,015
Development Bank of the Philippines	–	376,480	418,747	100,270
Philippine Fixed Rate Treasury Notes	–	10,652,169	11,074,320	415,595
ROP Global Peso Notes	–	400,000	389,584	13,148
ROP Onshore Dollar Bonds	–	23,530	22,956	626
Philippine Treasury Bills	–	535,786	536,101	–
Power Sector Assets and Liabilities Management Corporation	–	3,639,644	4,442,238	79,364
Republic of Indonesia	–	10,632,737	10,665,345	294,798
Republic of Korea	–	–	–	99
ROP Bonds	–	10,304,073	12,686,044	348,591
Philippine Retail Treasury Bonds	–	3,890,413	4,196,432	151,264
Singapore Treasury Bills	–	317,702	317,628	–
Small Business Loan Asset Backed Securities	–	379,868	54,632	–
UK Treasury Gilts	–	77,186	80,928	2,675
US Treasury Bills	–	352,997	355,266	262
	–	**41,602,762**	**45,260,397**	**1,408,707**
Private Debt Securities				
Aboitiz Power	–	–	–	20,610
Agricultural Bank of China	–	235,300	234,855	1,085
Ayala Land Inc	–	300,000	304,549	16,875
Banco de Oro	–	345,420	350,212	34,361
BNP Paribas	–	289,099	292,986	2,386
China Construct Bank Asia	–	94,120	95,520	410
Energy Development Corporation	–	1,612,757	1,749,765	75,445
European Investment Bank	–	19,556	20,010	44
Export-Import Bank of Korea	–	1,200,030	1,170,749	25,372
Filinvest Development Cayman Islands	–	1,852,517	1,834,455	89,627
Filinvest Land Inc	–	609,350	624,151	15,618
First Pacific Limited	–	1,163,653	1,234,205	48,932
FPC Finance Limited	–	–	–	7,157
FPC Treasury Limited	–	301,184	297,606	19,847
FPT Finance Limited	–	208,288	227,369	8,634
HSBC Finance Corp	–	–	–	2,621
HSBC Holding PLC	–	103,250	104,014	830
Ind & Comm Bank of China	–	477,129	477,918	3,974
International Container Terminal Services Inc	–	4,455,782	4,715,511	246,413

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
JG Summit Holdings Inc	–	₱–	₱–	₱6,960
Korea Development Bank	–	329,420	343,453	6,408
Manila North Tollways Corporation	–	50,000	50,738	2,535
Metropolitan Bank & Trust Co	–	567,100	564,480	30,482
Philippine Long Distance Telephone Co	–	528,060	566,345	4,864
Philippine Savings Bank	–	75,000	74,220	4,125
Phoenix Petroleum Philippines	–	–	–	32,293
Rizal Commercial Banking Corporation	–	2,459,497	2,546,798	68,442
Security Bank Corporation	–	1,634,068	1,637,563	58,822
Sinopec Corporation	–	1,694,160	1,635,514	20,141
SM Investments Corporation	–	557,139	573,062	81,558
SM Prime Holdings Bonds	–	67,700	68,283	2,628
South Luzon Tollway Corporation	–	410,000	400,528	14,490
Standard Chartered Bank London	–	56,787	58,121	2,816
	–	**21,696,366**	**22,252,980**	**956,805**
Equity Securities				
Aboitiz Equity Ventures	161,500	–	9,359	–
Allied Banker Insu.	200,000	–	20,000	–
Apo Golf & Country Club	2	–	2	–
Asia Pacific Trust Development	1	–	1,500	–
Asean Finance	–	–	3,604	–
Ayala Corporation	16,090	–	12,164	–
Ayala Land Inc.	495,900	–	17,084	–
Bacnotan Steel Industries	3,345,000	–	–	–
Baguio City Country Club	1	–	1,500	–
Bancnet, Inc.	49,999	–	5,000	–
Banco de Oro	103,790	–	10,898	–
Bank of the Philippine Islands	122,179	–	10,245	–
Bap Credit Guaranty	29,800	–	1,138	–
Bayantel	8,244	–	–	–
Bayantel 31% Tranche B Conv Equty	83,997	–	14,851	–
Bulawan Mining	2,500,000	–	–	–
Camp John Hay	1	–	100	–
Camp John Hay Golf Club	2	–	200	–
Chibakakusai Club	1	–	–	–
Club Filipino	2	–	150	–
Cruz Tel Co.	30	–	3	–
Dev Academy Of The Phils.	1,500	–	–	–
Eagle Ridge Golf & Country Club	30	–	3,600	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Eastridge Golf Course & Village	2	₱–	₱–	₱–
Enchanted Kingdom	32,787,000	–	–	–
Energy Development Corp	595600	–	3,693	–
Evercrest Golf	4	–	1,000	–
Fairways &Bluewater Resort	294	–	–	–
Fastech Synergy	1,337,807	–	–	–
GT Capital Holdings Inc.	4,890	–	6,455	–
Heavenly Garden	5,000	–	500	–
Iligan Golf & Country Club	1	–	1	–
Iloilo Golf & Country Club	1	–	–	–
International Container Terminal Services Inc.	67240	–	4,727	–
JG Summit Holdings Inc	166,820	–	12,228	–
Lepanto Consolidated Mining Co."B"	1,776	–	–	–
LGU Guarantee Corp	100,000	–	10,000	–
Luisita Golf & Country Club	1	–	–	–
Makati Sports Club-A	1	–	350	–
Manila Golf & Country Club	102	–	118,000	–
Manila Polo Club	1	–	12,500	–
Manila Southwoods Golf Club	2	–	757	–
Marikudo Country Club Of Iloilo City	1	–	–	–
Megaworld Corp.	711,500	–	3,024	–
MERALCO	142,941	–	45,762	–
Metropolitan Bank and Trust Company	101,180	–	8,145	–
Mimosa Golf & Country Club	2	–	525	–
Mount Malarayat Golf & Country Club	17	–	–	–
National Reinsurance Corporation	1,000	–	1	–
Negros Occidental Golf & Country Club	5	–	–	–
NIDC Manila Polo Club	1	–	–	–
Northern Telephone Company	40	–	18	–
Orchard Golf & Country Club	1	–	150	–
PCDI Preferred Shares	175	–	39	–
Phil Dealing System-Fixed Income(Formerly BAP Consulting)	73,000	–	–	–
Phil. Airlines	49,943,860	–	–	–
Phil. Central Depository Inc.	68,380	–	2,392	–
Phil. Clearing House Corp	42000	–	4,200	–
Phil. Dealing House	–	–	7,300	–
Phil. Electric Corp Shares	202,440	–	95	–
Philex Mining	151	–	–	–
Philippine Columbian Association	2	–	–	–
Philippine Long Distance Telephone Company	7,865	–	16,060	–

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Philippine Racing Club	30,331,103	₱–	₱284,809	₱–
Philippine Stock Exchange Shares	820	–	225	–
Philodril	695,625	–	8	–
PICOP Resources	19,008,000	–	–	–
Philippine Tel Corporation	650	–	–	–
Pldt Communication And Energy Venture	20	–	9	–
PLDT Preferred Shares	109,975	–	1,102	–
PNB Management and Development Corp	–	–	1,933	–
PNB Venture Capital Corp.	–	–	5,061	–
Primo Oleo Chemicals	6,638,151	–	–	–
Proton Chemical Industries Comm Shares	44,419	–	–	–
PT&T	5,000,000	–	–	–
Pueblo De Oro Golf ^ Country Club	2	–	820	–
Puerto Azul Sports & Beach Club	2	–	–	–
Quezon City Sports Club	1	–	420	–
Retelco	20	–	4	–
Riviera Golf & Country Club	6	–	310	–
Rural Bank Of Ibajay	340	–	–	–
Santa Elena Golf & Country Club	5	–	14,600	–
Sierra Grande Country	100	–	32	–
SM Investments Corp.	23,950	–	20,693	–
SM Prime Holdings	581,000	–	12,608	–
Small Business Guarantee	400,000	–	40,000	–
Southern Iloilo Telephone Co.	20	–	2	–
Subic Bay Golf & Country Club	1	–	–	–
Subic Bay Yatch Club	58	–	–	–
Swift Shareholders	9	–	–	–
Tagaytay Highlands	1	–	500	–
Tagaytay Midlands	1	–	490	–
Tayud Golf & Country Club	1	–	–	–
Ternate Dev'T Corporation	–	–	170	–
Universal Robina Corp.	62100	–	11,551	–
Valley Golf & Country Club	4	–	680	–
Victorias Golf & Country Club	1	–	–	–
Wack Wack Golf & Country Club	4	–	62,300	–
	156,375,561	**–**	**827,647**	–
Total Available-for-Sale Securities	**156,375,561**	**₱63,299,128**	**₱68,341,024**	**₱2,365,512**

Held to Maturity Securities
(Amounts in thousands, except for 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 based on Bid Prices as of Balance Sheet Date	Income Received and Accrued
Government securities				
ROP Bonds	–	₱14,021,056	₱16,389,453	₱600,535
Fixed Rate Treasury Notes	–	2,737,693	3,372,305	137,410
Retail Treasury Bonds	–	2,885,515	3,126,910	161,496
Republic of the Indonesia	–	235,300	244,269	11,331
US Treasury Bills	–	4,706	4,706	70
US Treasury Notes	–	23,530	23,491	90
Federal National Mortgage Association	–	25,883	26,029	139
Federal Home Loan Banks	–	23,530	23,513	91
Federal Home Loan Mortgage Corporation	–	21,177	21,321	70
Total Government Securities	–	**₱19,978,390**	**₱23,231,997**	**₱911,232**

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 Discounted Cash Flows at end of Reporting Period	Income Received and Accrued
Government Securities				
Landbank of the Philippines	₱–	₱75,394	₱75,394	₱5,704
National Food Authority	256,880	256,862	274,209	16,286
Province of Aklan	130,000	130,000	135,084	4,661
Home Development Mutual Fund (Pag-ibig)	–	–	–	31,612
Home Guaranty Corp	11,516	11,516	11,329	305
	398,396	**473,772**	**496,016**	**58,568**
Private Securities				
Steel Asia Manufacturing Corp	11,202	–	–	–
Pilipinas Hino Incorporated	6,988	–	–	–
Golden Dragon Star Equities Inc.	–*	–	–	353,000
Global Steel (NSC)	3,676,245	75,168	75,168	–
High Street (SPV-AMC) Inc. (Bacnotan Steel)	76,862	76,862	76,862	–
	3,771,297	**152,030**	**152,030**	**3,000**
Total Unquoted Debt Securities	**₱4,169,693**	**₱625,802**	**₱648,046**	**₱411,568**

*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, 2015

(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 2015.

Name and Designation of Debtor	Balance at Beginning of Period (12/31/14)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/15)	Due Dates	Interest Rates	Terms of Payment	Collateral
Subsidiary										
PNB-IBJL Leasing and Finance Corp	₱1,575,000	₱4,372,000	(₱4,068,333)	₱–	Current	₱1,878,667	01/28/2016 to 05/20/2017	3.00% to 3.85%	Payable within 3 years	Unsecured
Affiliates										
Philippine Airlines Inc.	1,795,089	–	(1,795,089)	–	Current	–	–	–	–	–
Victorias Milling	77,444	4,218,618	(4,157,094)	–	Current	138,968	1/5/2016	Nil	DBPL - 3 days	Unsecured
Horizon Global Investment	6,708,000	–	351,000	–	Current	7,059,000	9/12/2017	3.34%	Quarterly payment	Unsecured
Horizon Global Investment	3,130,400	–	(3,130,400)	–	Current	–	–	–	–	–
Eton Properties	–	613,610	(23,600)	–	Current	590,010	Year 2022	5.00%	Monthly	Real Estate
Interbev Philippines Inc.	2,978	–	(2,978)	–	Current	–	–	–	–	–
Lufthansa Teknik	474,032	–	(210,496)	–	Current	263,536	08/26/2016 to 02/22/2017	2.82% to 3.05%	Quarterly payment	Unsecured
Maranaw Hotel & Resort Corp	35,000	–	(35,000)	–	Current	–	–	–	–	–
Maranaw Hotel & Resort Corp	70,000	–	(70,000)	–	Current	–	–	–	–	–
Maranaw Hotel & Resort Corp	–	95,000	(2,000)	–	Current	93,000	8/29/2016	6.00%	Quarterly payment of ₱2.1 million plus interest, balloon payment at maturity	Hold out deposit
Major Win Enterprises Limited	–	1,223,560	(20,252)	–	Current	1,203,308	8/17/2027	3.61%	Quarterly payment	Unsecured
Golden Investments TMK	–	9,018,000	(547,200)	–	Current	8,470,800	06/26/2020	4.00%	Monthly	Various
Absolut Distillers, Inc.	–	1,150,000	(800,000)	–	Current	350,000	01/26/2016 to 3/22/2016	4.50%	Payable within 3 months	Unsecured
Key Management Personnel	16,073	3,170	(2,245)	–	Current	16,998	Various	Various	Payable on demand	Various
Officers	285,967	149,637	(211,857)	–	Current	223,747	09/30/2015 to 09/30/2036	0.25% to 16.5%	Payable within 1 month to 25 years	Bank deposit hold-out, real estate and chattel mortgages
	₱14,169,983	₱20,843,595	(₱14,725,544)	₱–		₱20,288,034				

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2015

(In thousands)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/14)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/15)	Due Dates	Interest Rates	Terms of Payment	Collateral
PNB-IBJL Leasing and Finance Corp	₱1,575,000	₱4,372,000	(₱4,068,333)	₱–	Current	₱1,878,667	01/28/2016 to 05/20/2017	3.00% to 3.85%	Payable within 3 years	Unsecured

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 2015.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2015

(In thousands)

Description	Beginning Balance 12/31/2014	Additions	Charged to Costs and Expenses (Amortization)	Charged to Other Accounts	Other Changes	Ending Balance 12/31/2015
Core deposits*	₱1,538,264	₱–	(₱189,779)	₱–	₱–	₱1,348,485
Customer relationship*	144,438	–	(130,648)	–	–	13,790
Software	612,122	571,768	(103,749)	–	462	1,080,603

**Acquired from business combination*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
DECEMBER 31, 2015

(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	₱–	₱6,958,411	4.13%	Interest shall be payable quarterly	6/12/2020
Long Term Negotiable Certificates of Deposits	4,000,000	–	3,981,365	3.25%	Interest shall be payable quarterly	4/22/2019
Long Term Negotiable Certificates of Deposits	5,000,000	–	4,979,615	3.00%	Interest shall be payable quarterly	2/5/2019
Long Term Negotiable Certificates of Deposits	3,100,000	–	3,094,836	5.18%	Interest shall be payable quarterly	2/17/2017
Unsecured Subordinated Notes	6,500,000	–	6,494,324	6.75%	Interest shall be payable quarterly	6/15/2021
Unsecured Subordinated Notes	3,500,000	–	3,492,103	5.88%	Interest shall be payable quarterly	5/9/2022
Bills Payable	25,407,406	5,492,022	19,915,384	0.01% to 2.50%	Various	1/8/2015-8/14/2017

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2015

(In thousand pesos)

Name of Related Parties (i)	Balance at Beginning of Period	Balance at Ending 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 increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2015

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, 2015

(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**	**-**	**120,000**	**14,924,647**	**-**

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, 2015 AND 2014

RATIOS	FORMULA	CONSOLIDATED		PARENT	
		2015	2014	2015	2014
(i) Liquidity Ratios					
a. Current Ratio	Current Assets/Current Liabilities	66.75%	67.14%	62.24%	61.65%
b. Liquid assets to total assets-gross	Liquid Assets-gross/Total Assets-gross	29.40%	32.79%	29.79%	30.54%
c. Liquid assets to total assets-net	Liquid Assets-net/Total Assets-net	30.59%	34.11%	31.06%	31.82%
d. Liquid assets ratio-gross	Liquid Assets-gross/Liquid Liabilities	42.24%	46.58%	40.97%	41.80%
e. Liquid assets-net	Liquid Assets-net/Liquid Liabilities	42.06%	46.38%	40.77%	41.59%
f. Liquid assets-gross to total deposits	Liquid Assets-gross/Total Deposits	42.97%	47.86%	41.60%	42.75%
g. Liquid assets-net to total deposits	Liquid Assets-net/Total Deposits	42.78%	47.65%	41.41%	42.53%
h. Net loans to total deposits	Net Loans/Total Deposits	71.86%	66.21%	67.32%	63.70%
(ii) Solvency Ratios					
a. Debt to equity ratio	Total Liabilities/Total Shareholders' Equity	5.49	5.31	5.34	5.19
b. Debt ratio	Total Liabilities/Total Assets	84.59%	84.16%	84.24%	83.84%
c. Equity ratio	Total SHE/Total Assets	15.41%	15.84%	15.76%	16.16%
(iii) Asset-to-Equity Ratios					
a. Asset to Equity ratio	Total Assets/Total SHE	6.49	6.31	6.34	6.19
b. Fixed assets to equity ratio	Total Fixed Assets/Total SHE	33.75%	40.20%	34.20%	41.15%
c. Fixed assets to total assets ratio	Total Fixed Assets/Total Assets	5.20%	6.37%	5.39%	6.65%
(iv) Interest Rate Coverage Ratios					
a. Times interest earned ratio	EBIT/Interest Expense	2.99	2.89	2.91	2.69
(v) Profitability Ratios					
a. Return on Assets					
1. Using Net Income	Net Income/Average Assets	0.97%	0.89%	1.03%	0.77%
2. Using Net Income attributable to parent	NIATP/Average Assets	0.94%	0.86%	1.03%	0.77%
a. Return on Equity					
1. Using Net Income	Net Income/Average Capital	6.19%	6.06%	6.47%	5.17%
2. Using Net Income attributable to parent	NIATP/Average Capital	6.00%	5.91%	6.47%	5.17%

RATIOS	FORMULA	CONSOLIDATED		PARENT	
		2015	2014	2015	2014
(iv) Capital Adequacy Ratios					
a. Tier I capital ratio	Tier 1/Total RWA	16.23%	17.43%	11.19%	11.96%
b. Capital risk asset ratio	Qualifying Capital/Total RWA	19.24%	20.60%	14.42%	15.38%
(iv) Other Ratios					
a. Non-performing loans ratio	Non-performing loans/Adjusted Loans	2.81%	3.56%	2.82%	3.58%
b. Net interest margin	Net Interest Income/Average Earnings Assets	3.24%	3.21%	3.14%	3.21%
c. Efficiency ratio	Total Operating Expenses/Total Operating Income	70.77%	73.85%	69.44%	74.58%
d. Allowance for probable loan losses* to total loans ratio	Allowance for probable loan losses*/Total Loans*	1.85%	1.92%	1.96%	1.95%
e. Allowance for probable loan losses* to NPL ratio	Allowance for probable loan losses*/NPL	67.46%	54.94%	70.88%	55.43%

** Total loans pertain to receivables from customers.*