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|---|---|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

**PHILIPPINE NATIONAL BANK**

(Company's Full Name)

**9th Floor PNB Financial CenteR**

**Macapagal BLvd., Pasay City**

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

**MARLYN M. PABRUA**

Contact Person

**891-60-40**

Company Telephone Number

**6 30**

*Month* *Day*

Fiscal Year

**17 - Q**

FORM TYPE

*Month* *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SEC Number AS096-005555
File Number ________________

**PHILIPPINE NATIONAL BANK**
**AND SUBSIDIARIES**

(Company's Full Name)

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

(Company's Address)

**(632) 891-6040 to 70**

(Telephone Number)

(Calendar Year Ended)

**SEC FORM 17-Q REPORT**

Form Type

(Amendment Designation (if applicable)

**JUNE 30, 2015**

Period Ended Date

**LISTED**

(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarter ended June 30, 2015

2. Commission Identification No. ASO96-005555

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

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

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

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

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

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

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

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

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

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

Yes [ √ ] No [ ]

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

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):
Yes [ √ ] No [ ]
(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [ √ ] No [ ]

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

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Philippine National Bank (PNB) and its Subsidiaries (the PNB Group) which comprise the consolidated statements of financial position as of June 30, 2015 and December 31, 2014 and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June30, 2015 and June 30, 2014have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) and in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

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

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

#### A. Financial Condition

The Group's consolidated assets reached ₱644.7 billion as of June 30, 2015, higher by ₱19.2 billion compared to ₱625.5 billion total assets reported by the Bank as of December 31, 2014. Changes (more than 5%) in assets were registered in the following accounts:

- Loans and Receivables stood at ₱339.7 billion or ₱23.5 billion higher than the ₱316.2 billion December 2014 level mainly due to loan releases implemented in the current year to various corporate borrowers .

- Available for Sale Investments went upsignificantly to ₱80 .0billion as of June 30, 2015, ₱16.9 billion or by 26.8% from the ₱63.1 billion level as of December 31, 2014 due to acquisition of various investments securities.

- Interbank Loans Receivable went down to ₱7.1 billion as of June 30, 2015, a decrease of ₱0.6 billion from ₱7.7 billion as of December 31, 2014 attributed to settlement of interbank borrowings by various banks.

- Investment Properties decreased by₱1.6 billion from ₱20.2 billion as of December 31, 2014to ₱18.6 billion as of June 30, 2015 mainly due to sale of the ₱1.0 billion Heritage Park lotsand the continued disposals of foreclosed properties.

- Cash and Other Cash Items, Due from BangkoSentralngPilipinas and Due from Other Banks as of June 30, 2015, decreased by ₱2.9 billion, ₱14.6 billion and ₱2.3 billion, respectively from ₱14.6 billion, ₱105.8 billion and ₱15.6 billion, respectively as of December 31, 2014.

- Intangible assets increased to ₱2.4 billion as of June 30, 2015 in view of the initial costs incurred in the ongoing upgrading of the core banking system of the Bank which is targeted for completion in 2017.

- Other assets were slightly higher by ₱0.2 billionwhile Deferred Tax Assets was lower by ₱0.1 billion.

Consolidated liabilities increased by ₱15.6 billion from ₱526.4 billion as of December 31, 2014 to ₱542.0 billion as of June 30, 2015. Major changes in liability accounts were as follows:

- Deposit liabilities totaled ₱456.4 billion, ₱8.7 billion higher compared to its year-end 2014 level of ₱447.6 billion. Demand, Savings and Time deposits increased by ₱3.1 billion, ₱1.7 billion and ₱3.9 billion, respectively, compared to the December 2014 levels.

- Bills and Acceptances Payable increased by ₱5.6 billion, from ₱19.1 billion to ₱24.7 billion, mainly accounted for by various borrowings from other banks.

- Accrued Expenses increased from ₱5.4 billion as of December 31, 2014 to ₱6.0 billion as of June 30, 2015.

- Financial Liabilities at Fair Value through profit or loss was higher at ₱12.5 billion as of June 30, 2015 from last year's ₱10.9 billion attributed to the increase in segregated fund liabilities of PNB Life.

- Income Tax Payable increased by ₱292 million from ₱85 million to ₱377 million coming from income tax provisions in the current year.

Total Equity accounts stood at ₱102.7 billion from ₱99.1 billion as of December 31, 2014, or an improvement of ₱3.6 billion mainly attributed to the net income for the six months ended June 30, 2015.

## B. Results of Operations

- For the six months ended June 30, 2015, the net income of the bank reached ₱3.6 billion, ₱0.4 billion or 12% higher compared to the ₱3.2 billion net income for the same period last year.

- Net interest income totalled₱8.7 billion, higher by ₱0.2 billion compared to the net interest income for the same period last year mainly due to expansion in the loan portfolio which accounted for ₱0.7 billion increase in interest income. Total interest income was up by ₱0.4 billion from ₱10.3 billion to ₱10.7 billion. Total interest expense however, was also higher at ₱2.0 billion or by ₱0.2 billion from ₱1.8 billion last year.

- Other income for the six months ended June 30, 2015 declined by ₱0.7 billion to ₱2.8 billion from ₱3.5 billion for the same period 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 foreign exchange gains.The significant growth in gains from sale of foreclosed assets and miscellaneous income however partly offset decline in treasury related income.

- Net service fees and commission income and net insurance premium were at ₱1.4 billion and ₱0.4 billion, respectively, for the six months ended June 30, 2015.

- Administrative and other operating expenses totaled ₱8.8 billion for the six months ended June 30, 2015, ₱0.3 billion lower compared to the same period last year mainly due todecreases in Provision for impairment and credit losses by ₱0.3 billion, miscellaneous expenses by ₱0.7 billion mainly due to reversal of the ₱1.0 billion accrual of legal liability provisions in view of a recent court decision (please refer to item No. 2 under L. Other Matters), and depreciation and amortization by ₱0.2 billion. Said decreases were partly offset by higher Compensation and Fringe Benefits by ₱0.9 billion and Taxes and Licenses which increased by ₱0.1 billion.

- Total Comprehensive Income for the six months period ended June 30, 2015 amounted to ₱3.6 billion, ₱0.4 billion higher compared to the ₱3.2 billion for the same period last year. Current year's comprehensive income came mainly from the net income totaling ₱3.6 billion.

## C. Key Performance Indicators

- Capital Adequacy

  The Group's consolidated risk-based capital adequacy ratio (CAR) and Tier 1 ratio computed based on BSP guidelines were 19.59% and 16.58% respectively, as of June 30, 2015 and 20.61% and 17.43% respectively, as of December 31, 2014, consistently exceeding the regulatory 10% CAR.

- Asset Quality

  The Group's non-performing loans (gross of allowance) decreased to ₱9.1 billion as of June 30, 2015 compared to ₱9.9billion as of December 31, 2014. NPL ratios based on BSP guidelines are now 0.30% (net of valuation reserves) and 2.87% (at gross), from 0.92% and 3.42%, respectively in December 2014.

- Profitability

| | Semester Ended | |
|---|---|---|
| | **6/30/2015** | 6/30/2014 |
| Return on equity (ROE)[1/] | **7.2%** | **7.5%** |
| Return on assets(ROA)[2/] | **1.1%** | **1.1%** |
| Net interest margin(NIM)[3/] | **3.3%** | **3.1%** |

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

- Liquidity

  The ratio of liquid assets to total assets as of June 30, 2015 was 32.1% compared to 34.1% as of December 31, 2014. Ratio of current assets to current liabilities was at 57.9% as of June 30, 2015 compared to 64.7% as of December 31, 2014.The Group is in compliance with the regulatory required liquidity floor on government deposits and legal reserve requirements for deposit liabilities.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses)to total operating income resulted to 61.8% for the Six months ended June 30, 2015 compared to 64.4% for the same period last year.

- Other financial soundness indicators is shown in Annex A

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

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

## E. Events that will trigger direct or contingent financial obligation

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

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

The summary of various commitments and contingent accounts as of June 30, 2015 and December 31, 2014 at their equivalent peso contractual amounts is presented in Note 17 of the Selected NotestoConsolidated Financial Statements on page 48 of this report.

## G. Capital Expenditures

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

## H. Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Group for the six months endedJune30, 2015and 2014came from its continuing operations.

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

Long-term Negotiable Certificates of Time Deposits

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

| Issue Date | Maturity Date | Face Value | Coupon Rate | Interest Repayment Terms | Carrying Value **June 30, 2015** | Carrying Value December 31, 2014 |
|---|---|---|---|---|---|---|
| December 12, 2014 | June 12, 2020 | ₱7,000,000 | 4.13% | Quarterly | **₱ 6,954,194** | ₱6,957,175 |
| October 21, 2013 | April 22, 2019 | 4,000,000 | 3.25% | Quarterly | **3,978,712** | 3,976,133 |
| August 5, 2013 | February 5, 2019 | 5,000,000 | 3.00% | Quarterly | **4,976,507** | 4,973,448 |
| November 18, 2011 | February 17, 2017 | 3,100,000 | 5.18% | Quarterly | **3,092,672** | 3,090,564 |
| | | ₱19,100,000 | | | **₱ 19,002,085** | ₱18,997,320 |

* *Acquired from business combination*

Other significant terms and conditions of the above LTNCDs follow:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(5) Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱500,000 subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may

not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

**J. Seasonal Aspects**

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

**K. Other Bank's Activities**

**A. Products and Services launched by the Bank during the 2nd quarter of 2015:**

- **Save and Soar Promo** (US Dollar Savings Account and Time Deposit) - A raffle promo that aims to give away rewards to PNB Clients who maintain US Dollar Savings and Time Deposit Accounts. For every additional incremental of USD 500 in Savings and USD 1,000 in Time Deposit Accounts, clients receive one (1) e-raffle ticket provided the deposit are maintained for a minimum of four (4) months.
- **Highways to Runways Promo** (Auto Loan Promo) – An instant gratification promo that aims to give away rewards to PNB Clients who have availed an Auto Loan.
- **PNB Unit Investment Trust Fund (UITF) ATM Investment Facility** – Soft launch was done at the ATM of Main Branch last May 2015. The primary objective of the project is to further expand the distribution channel of the PNB UITF which is in line with the Bank's commitment towards making UITF Investments more convenient to our clients.
- **Anti-Skimming Protection Solution (SPS)** – New machines acquired by the Bank and currently being installed have a real-time detection of the presence of a fraudulent device on the ATM that can manage response to a potential skimming attack before it occurs.
- **Adoption of Triple Data Encryption Standard (93DES)** – The Bank was able to comply with BSP Circular No. 808 – Guidelines on Information Technology Risk Management for all Banks and other BSP Supervised Institutions with the replacement of all Single DES ATMs in March of 2015. 3DES is a more secure form of encryption and has the advantage of proven reliability against attacks.

B. Other relevant activities of the Bank during the 2nd quarter of 2015

- **Moody's Upgrade Credit Ratings of PNB** - Moody's Investors Service has upgraded the rating of Philippine National Bank (PNB) to investment grade, reflecting the consistent improvement in the Bank's credit profile. PNB's long-term and short-term ratings were raised two levels up from Ba2/NP to Baa3/P-3. Likewise, the ratings agency raised PNB's baseline credit assessment (BCA) and adjusted BCA to ba1 from ba3. The ratings upgrade serves as validation of PNB's efforts at fortifying its business. This recognizes PNB's drive toward its long-term corporate goals of high profitability supported by a strong balance sheet.

"The upgrade of the Bank's BCAs and Adjusted BCA reflect improvements in asset quality profiles during a period in which new non-performing loans (NPL) formation has remained low in the Philippines," Moody's explained.

**PNB sells ₱1-Billion idle assets - Heritage Park memorial certificates -** Philippine National Bank (PNB) has unloaded ₱1 billion worth of Heritage Park memorial lot inventory in favor of the STI Group's pre-need affiliate PhilPlans First Inc.

As disclosed to the Philippine Stock Exchange (PSE), the sale of the bank's Heritage Park inventory covered by 3,827 Heritage Park Investment Certificates (HPICs) to PhilPlans through its designated trustee, Union Bank Trust.

Heritage Park, which was developed by the state-controlled Bases Conversion and Development Authority (BCDA), is a 76-hectare memorial park equipped with modern interment services, crematory and other facilities. The park opened in 2001. It is located along Bayani Road in Fort Bonifacio bordered by the C-5 Road in Taguig City. It is also between the Armed Forces of the Philippines' LibinganngmgaBayani and the American Memorial and Cemetery.

PhilPlans, is a leading financial solutions company in the country that provides innovative pension, education and memorial programs. This pre-need firm is controlled by Philippines First Insurance Co. Inc. (PhilFirst Insurance) and Systems Technology Institute (STI), which took over ownership of PhilPlans from Philippine American Life and General Insurance Co. (Philam Life) in 2009.

**PNB Annual Stockholders' Meeting and Press Conference** – PNB held its Annual Stockholders' Meeting last May 26, 2015 at the Grand Ballroom of Century Park Hotel. President Reynaldo Maclang reported PNB's 2014 performance as well as the Bank's business plans in the coming years to the stockholders and guests who attended the affair. Afterwards, a press conference was held which was graced by some members of the Bank's Board of Directors, Senior Officers and friends from the media.

## L. Other Matters

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

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

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

2. In case of early adoption of PFRS 9, the following accounts may be affected:
   a. Loans and Receivables
   b. Investment Securities
   c. Financial Liabilities Designated at FVPL
   d. Retained Earnings
   e. Undivided Profits

### 2. National Steel Corporation

On March 31, 2015, Singapore Court of Appeal issued a Decision upholding the Singapore High Court's Decision in part, i.e., setting aside the monetary portions of the Arbitral Award that rendered the bank consortium not liable for certain sums of money. Parties to file submissions before the Singapore Court of Appeal pertaining to the issue on cost and consequential order.The Decision of the Singapore Court of Appeal will have a positive impact on the books of the Parent Company.

On May 25, 2015, the Singapore Court of Appeal made some ruling on the issue on costs and required parties to file further submissions on the issue of remission. Hearing with respect to the issue of remission set on August 12, 2015.

Background information on the case was disclosed under Note 35 (Provisions, Contingent Liabilities and Other Commitments) in the Group's annual consolidated financial statements as of and for the year ended December 31, 2014.

## 3. Other Disclosures

The PNB Group has nothing to disclose on the following:

- Change in estimates reported in prior interim periods and in prior financial years
- Dividends paid
- Material subsequent events subsequent to the end of the interim period
- Changes in the composition of the enterprise during the interim period, including business combinations, acquisitions and disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

## PART II – OTHER INFORMATION

### ITEM 1.List of submitted SEC FORM 17-C ReportsduringtheSecond Quarterof 2015

| DATE | PARTICULARS |
|---|---|
| 04-16-15 | Press Release of the Bank RE: Philippine National Bank Posts ₱5.5 Billion Net Income in 2014. |
| 04-29-15 | Press Release of the Bank re: PNB Inks first Syndicated Loan After More Than A Decade. |
| 05-15-15 | Press Release of the Bank re: PNB Posts ₱1.2 Billion Net Income in First Quarter of 2015. |
| 05-26-15 | Result of Annual Stockholders' Meeting:<br>1. Election of the Members of the Board of Directors<br>2. Appointment of SGV & Co. as the Bank's External Auditor<br><br>Result of Organizational Board Meeting:<br>1. Appointment of Chairman, Vice Chairman and Key Corporate Officers<br>2. Appointment of Chairpersons/Members of various Board Committees |
| 05-26-15 | Press Release of the Bank re: Moody's Upgrades Credit Rating of PNB |
| 06-26-15 | Board approval of the following:<br>1. Sale of PNB's Heritage Park inventory covered by 3,827 Heritage Park Investment Certificates for P1.0 Billion in favor of PhilPlans First Inc.<br>2. Additional Members to Board Committees<br>3. Hiring of Atty. Maila Katrina Y. Ilarde as the Corporate Secretary of the Bank |
| 06-29-15 | Appointment of Atty. Ruth Pamela E. Tanghal as Assistant Corporate Secretary |

### ITEM 2. Aging of Loans Receivables

The schedule of aging of loans receivables as required by Philippine Stock Exchange (PSE) in its Circular letter No. 2164-99 dated August 23, 2001 is shown on page 49 of this report.

## PART III - INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**As of June 30, 2015**
**(With Comparative Audited Figures as of December 31, 2014)**
**(In Thousands)**

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Cash and Other Cash Items** | **₱11,678,884** | **₱14,628,489** |
| **Due from BangkoSentralngPilipinas** | **91,123,744** | **105,773,685** |
| **Due from Other Banks** | **13,259,768** | **15,591,406** |
| **Interbank Loans Receivable** | **7,101,705** | **7,671,437** |
| **Securities Held Under Agreements to Resell** | **–** | **–** |
| **Financial Assets at Fair Value Through Profit or Loss** | **17,016,104** | **17,351,626** |
| **Available-for-Sale Investments** | **80,000,306** | **63,091,497** |
| **Held to Maturity Investments** | **23,857,490** | **22,970,306** |
| **Loans and Receivables** | **339,745,171** | **316,253,021** |
| **Property and Equipment** | **19,715,171** | **19,574,383** |
| **Investment Properties** | **18,626,052** | **20,248,482** |
| **Deferred Tax Assets** | **1,388,122** | **1,461,938** |
| **Intangible Assets** | **2,418,125** | **2,294,824** |
| **Goodwill** | **13,375,407** | **13,375,407** |
| **Other Assets** | **5,375,579** | **5,159,331** |
| **TOTAL ASSETS** | **₱644,681,628** | **₱625,445,832** |

## LIABILITIES AND EQUITY

| | | |
|---|---|---|
| **LIABILITIES** | | |
| **Deposit Liabilities** | | |
| Demand | **₱104,701,802** | **₱101,561,040** |
| Savings | **294,874,721** | **293,201,308** |
| Time | **56,811,729** | **52,881,409** |
| | **456,388,252** | **447,643,757** |
| **Financial Liabilities at Fair Value Through Profit or Loss** | **12,464,618** | **10,862,025** |
| **Bills and Acceptances Payable** | **24,690,059** | **19,050,058** |
| **Accrued Taxes, Interest and Other Expenses** | **6,026,035** | **5,441,349** |
| **Subordinated Debt** | **9,977,797** | **9,969,498** |
| **Income Tax Payable** | **377,129** | **85,505** |
| **Other Liabilities** | **32,050,027** | **33,332,758** |
| **TOTAL LIABILITIES** | **541,973,917** | **526,384,950** |

(Forward)

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | |
| **Capital Stock** | **₱49,965,587** | **₱49,965,587** |
| **Capital Paid in Excess of Par Value** | **31,331,251** | **31,331,251** |
| **Surplus Reserves** | **554,263** | **537,620** |
| **Surplus** | **22,184,550** | **18,702,394** |
| **Remeasurement Losses on Retirement Plan** | **(2,397,667)** | **(2,292,833** |
| **Accumulated Translation Adjustment** | **86,961** | **(59,854)** |
| **Net Unrealized Gain (Loss) on Available-for-Sale Investments** | **(2,364,240)** | **(2,336,142)** |
| **Parent Company Shares Held by a Subsidiary** | **–** | **–** |
| | **99,360,705** | **95,848,023** |
| **NON-CONTROLLING INTERESTS** | **3,347,006** | **3,212,859** |
| **TOTAL EQUITY** | **102,707,711** | **99,060,882** |
| **TOTAL LIABILITIES AND EQUITY** | **₱644,681,628** | **₱625,445,832** |

*See accompanying Notes to Consolidated Financial Statements.*

## PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF INCOME

**(In Thousands, Except Earnings Per Share)**

| | For the Semester Ended June 30 | | For the Quarter Ended June 30 | |
|---|---|---|---|---|
| | **2015 (Unaudited)** | **2014 (Unaudited)** | **2015 (Unaudited)** | **2014 (Unaudited)** |
| **INTEREST INCOME ON** | | | | |
| Loans and receivables | ₱8,210,253 | ₱ 7,463,353 | ₱4,201,054 | ₱ 3,701,463 |
| Trading and investment securities | 1,898,121 | 1,666,468 | 994,225 | 853,363 |
| Deposits with banks and others | 539,740 | 1,133,323 | 241,987 | 351,250 |
| Interbank loans receivable | 16,255 | 5,867 | 8,841 | 2,443 |
| | 10,664,369 | 10,269,011 | 5,446,107 | 4,908,519 |
| **INTEREST EXPENSE ON** | | | | |
| Deposit liabilities | 1,417,350 | 1,416,132 | 718,173 | 699,213 |
| Bills payable and other borrowings | 558,299 | 383,893 | 291,002 | 186,818 |
| | 1,975,649 | 1,800,025 | 1,009,175 | 886,031 |
| **NET INTEREST INCOME** | 8,688,720 | 8,468,986 | 4,436,932 | 4,022,488 |
| Service fees and commission income | 1,854,838 | 1,674,790 | 985,386 | 852,903 |
| Service fees and commission expense | 471,445 | 389,625 | 238,873 | 205,713 |
| **NET SERVICE FEES AND COMMISSION INCOME** | 1,383,393 | 1,285,165 | 746,513 | 647,190 |
| Net insurance premiums | 1,594,639 | 1,245,346 | 670,017 | 626,308 |
| Net insurance benefits and claims | 1,212,369 | 954,519 | 479,439 | 421,139 |
| **NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)** | 382,270 | 290,827 | 190,578 | 205,169 |
| **OTHER INCOME** | | | | |
| Trading and investment securities gains - net | 365,419 | 1,195,435 | 157,498 | 958,089 |
| Foreign exchange gains – net | 579,549 | 768,501 | 287,111 | 424,747 |
| Net gain on sale or exchange of assets | 593,714 | 325,169 | 293,514 | 190,586 |
| Miscellaneous | 1,307,465 | 1,162,813 | 980,828 | 810,102 |
| **TOTAL OPERATING INCOME** | 13,300,530 | 13,496,896 | 7,092,974 | 7,258,371 |
| **OPERATING EXPENSES** | | | | |
| Compensation and fringe benefits | 4,460,821 | 3,510,954 | 2,224,246 | 1,819,132 |
| Taxes and licenses | 1,046,647 | 962,211 | 514,009 | 487,092 |
| Occupancy and equipment-related costs | 660,633 | 722,725 | 343,222 | 372,749 |
| Depreciation and amortization | 744,869 | 988,669 | 369,152 | 576,230 |
| Provision for impairment, credit and other losses | 589,056 | 932,042 | 429,854 | 640,917 |
| Miscellaneous | 1,311,039 | 2,283,992 | 391,455 | 1,043,584 |
| **TOTAL OPERATING EXPENSES** | 8,813,065 | 9,400,593 | 4,271,938 | 4,939,704 |
| **INCOME BEFORE INCOME TAX** | 4,487,465 | 4,096,303 | 2,821,036 | 2,318,667 |
| **PROVISION FOR INCOME TAX** | 889,505 | 886,924 | 464,779 | 452,114 |
| **NET INCOME** | 3,597,960 | 3,209,379 | 2,356,257 | 1,866,553 |
| **ATTRIBUTABLE TO:** | | | | |
| **Equity Holders of the Parent Company** | 3,498,798 | 3,153,444 | 2,297,571 | 1,813,769 |
| **Non-controlling Interests** | 99,162 | 55,935 | 58,686 | 52,784 |
| | ₱3,597,960 | ₱ 3,209,379 | ₱2,356,257 | ₱1,866,553 |
| Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company | ₱2.80 | ₱ 2.84 | ₱ 1.84 | ₱ 1.63 |

## PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**(In Thousands)**

| | For the SixMonths Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | **2014 (Unaudited)** |
| **NET INCOME** | **₱3,597,960** | **₱3,209,379** |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Items that recycle to profit or loss in subsequent periods: | | |
| Net unrealized loss on available-for-sale investments | **(28,098)** | **598,766** |
| Accumulated translation adjustment | **146,773** | **(573,525)** |
| Items that do not recycle to profit or loss in subsequent periods: | | |
| Remeasurement gains (losses) on retirement plan | **(104,834)** | **–** |
| **OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX** | **13,841** | **25,241** |
| **TOTAL COMPREHENSIVE INCOME FOR PERIOD** | **₱3,611,801** | **₱3,234,620** |
| **ATTRIBUTABLE TO:** | | |
| **Equity Holders of the Parent Company** | **₱3,477,654** | **₱3,145,251** |
| **Non-controlling Interests** | **134,147** | **89,369** |
| | **₱3,611,801** | **₱3,234,620** |

*See accompanying Notes to Consolidated Financial Statements.*

# PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(In Thousands)**

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 14) | **Capital Paid in Excess of Par Value** | **Surplus Reserves** | **Surplus** (Note 2) | **Revaluation Increment on Land and Buildings** | **Accumulated Translation Adjustment** | **Net Unrealized Gain (Loss) on Available-for-Sale Investments** | **Equity in Net Unrealized Gain on AFS Investment of an Associate** (Note 10) | **Parent Company Shares Held by a Subsidiary** (Note 14) | **Remeasurement Losses on Retirement Plan** (Note 2) | **Total** | **Non-controlling Interests** (Note 2) | **Total Equity** |
| Balance at January 1, 2015, as previously reported | **₱49,965,587** | **₱31,331,251** | **₱537,620** | **₱18,702,394** | **₱–** | **(₱59,854)** | **₱ (2,336,142)** | **₱–** | **₱** | **₱ (2,292,833)** | **₱95,848,023** | **₱3,212,859** | **₱99,060,882** |
| Total comprehensive income (loss) for the period | – | – | – | **3,498,799** | – | **146,815** | **(28,098)** | – | – | **(104,834)** | **3,512,682** | **134,147** | **3,646,829** |
| Issuance of capital stock | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Non-controlling interest arising on a business combination | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Transfer to surplus reserves | – | – | **16,643** | **(16,643)** | – | – | – | – | – | – | – | – | – |
| Disposal of Parent Company shares held by a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | – |
| **Balance at June 30, 2015`** | **₱ 49,965,587** | **₱ 31,331,251** | **₱554,263** | **₱22,184,550** | **₱–** | **₱86,961** | **(₱2,364,240)** | **₱–** | **₱–** | **(₱2,397,667)** | **₱99,360,704** | **₱3,275,834** | **₱ 102,707,711** |
| Balance at January 1, 2014, as previously reported | ₱43,448,337 | ₱26,499,909 | ₱524,003 | ₱12,432,838 | ₱2,489,722 | ₱291,371 | ₱(3,581,865) | ₱- | ₱- | (₱1,278,372) | ₱78,336,227 | ₱3,071,685 | ₱83,897,628 |
| Effect of restatement | | | | 924,504 | (2,489,722) | | | | | | (1,565,218) | | (1,565,218) |
| Balance at January 1, 2014, as restated | 43,448,337 | 26,499,909 | 524,003 | 13,357,342 | – | 291,371 | (3,581,865) | – | – | (1,278,372) | 76,771,003 | 3,071,685 | 82,332,410 |
| Total comprehensive income (loss) for the period | – | – | – | 3,153,439 | – | (573,525) | 598,766 | – | – | – | 3,178,680 | 89,369 | 3,268,049 |
| Issuance of capital stocks | **1,328,734** | **922,247** | | | | | | | | | **2,165,018** | **–** | **2,165,018** |
| Transfer from surplus reserves | – | – | 14,817 | (14,817) | – | – | – | – | – | – | – | – | – |
| Balance at June 30, 2014 | ₱44,777,071 | ₱27,422,156 | ₱538,820 | ₱ 16,495,964 | ₱– | ₱(282,154) | (₱2,983,099) | ₱– | ₱- | (₱1,278,372) | ₱84,604,423 | ₱ 3,161,054 | ₱87,765,477 |

*See accompanying Notes to Consolidated Financial Statements*

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

**(In Thousands)**

| | SixMonths Ended June 30 | |
|---|---|---|
| | 2015 (Unaudited) | 2014 (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | ₱4,487,465 | ₱4,096,303 |
| Adjustments for: | | |
| Realized trading gain on available-for-sale (AFS) investments | (149,941) | (151,928) |
| Depreciation and amortization | 744,869 | 303,000 |
| Amortization of premium on AFS investments | 516,118 | 139,151 |
| Provision for impairment, credit and other losses | 589,056 | 932,042 |
| Net gain/(loss) on sale or exchange of assets | 13,080 | (24,864) |
| Mark-to-market loss (gain) on derivatives | | (63,754) |
| Amortization of intangibles | 161,290 | 110,000 |
| Loss (gain) on mark-to-market of financial liability designated at fair value through profit or loss (FVPL) | - | (857) |
| Amortization of capitalized transaction costs | 8,299 | 6,688 |
| Increase in the value of Intangibles | (283,309) | |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in amounts of: | | |
| Financial assets at FVPL | 335,522 | (3,730,018) |
| Loans and receivables | (24,355,837) | (6,364,474) |
| Other assets | (224,044) | (695,391) |
| Increase (decrease) in amounts of: | | |
| Financial assets at FVPL | 1,602,593 | 728,648 |
| Deposit liabilities | 8,744,495 | (24,698,072) |
| Accrued taxes, interest and other expenses | 584,686 | (451,586) |
| Other liabilities | (1,387,565) | 8,847,926 |
| Net cash generated from (used in) operations | (8,613,223) | (21,017,186) |
| Income taxes paid | (597,881) | (308,931) |
| Net cash provided by (used in) operating activities | (9,211,104) | (21,326,117) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of: | | |
| AFS investments | 19,905,059 | 33,597,635 |
| Investment properties | 1,810,131 | 454,077 |
| Property and equipment | 252,682 | 193,265 |

(Forward)

| | Six Months Period Ended June 30 | |
|---|---|---|
| | **2015 (Unaudited)** | **2014 (Unaudited)** |
| Acquisitions of: | | |
| AFS investments | **(₱37,130,419)** | **(₱17,157,266)** |
| Held to Maturity Investments | **(964,907)** | **(21,258,741)** |
| Property and equipment | **(802,360)** | **(94,849)** |
| Software cost | | **(118,236)** |
| Net cash provided by (used in) investing activities | **(16,929,814)** | **(4,384,115)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Settlement of bills and acceptances payable | **(46,426,008)** | **(13,924,630)** |
| Proceeds from bills and acceptances payable | **52,066,010** | **7,235,457** |
| Transaction cost attributable to issuance of shares | **-** | **1,746,557** |
| Net cash provided by (used in) financing activities | **5,640,002** | **(4,942,616)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(20,500,916)** | **(30,652,848)** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | |
| Cash and other cash items | **14,628,489** | **11,804,746** |
| Due from BSP | **105,773,685** | **153,169,330** |
| Due from other banks | **15,591,406** | **14,881,541** |
| Interbank loans receivable | **7,671,437** | **8,405,250** |
| Securities held under agreements to resell | | **–** |
| | **143,665,017** | **188,260,867** |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | |
| Cash and other cash items | **11,678,884** | **10,976,575** |
| Due from BSP | **91,123,744** | **113,580,422** |
| Due from other banks | **13,259,768** | **25,946,724** |
| Interbank loans receivable | **7,101,705** | **7,104,298** |
| Securities held under agreements to resell | **-** | **-** |
| | **₱ 123,164,101** | **₱157,608,019** |
| **OPERATIONAL CASH FLOWS FROM INTEREST ANDDIVIDENDS** | | |
| Interest received | **₱10,602,828** | **₱1,812,424** |
| Interest paid | **2,138,278** | **12,619,589** |
| Dividends received | **-** | **4,115** |

*See accompanying Notes to Consolidated Financial Statements.*

# PART IV - NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Amounts in Thousand Pesos Except When Otherwise Indicated)**

## 1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President DiosdadoMacapagal Boulevard, Pasay City, Metro Manila.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 662 domestic branches as of June 30, 2015. The Parent Company has the largest overseas network among Philippine banks with 76 branches, representative offices, remittance centers and subsidiaries as of June 30, 2015, in 15 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, life and non-life insurance, merchant banking, leasing, stock brokerage, foreign exchange trading and/or related services.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion, representing 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share. The fair value of the shares was the published price of the shares of the Parent Company as of February 9, 2013. There were no contingent considerations arrangements as part of the merger.Following the Parent Company's stock rights offering in the first quarter of 2014, the LT Group Inc. (LTG) increased its indirect ownership in the Parent Company to 59.83% as of June 30, 2015 through various holding companies. Director Lucio C. Tan directly owns 1.19% of the Parent Company's shares while the shareholders who issue proxies/special powers of attorney in favor of Director Lucio C. Tan from time to time held a total of 17.95% of the Parent Company's shares. The remaining 21.03% of the Parent Company's shares are held by other stockholders.

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

<u>Basis of Preparation</u>

The accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of June 30, 2015 and for the six months ended June 30, 2015 and 2014 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2014.

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

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

**Changes in Accounting Policies and Disclosures**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the Group's annual financial statements as of and for the year ended December 31, 2014, except for the adoption of the following new, amendments and improvements to Philippine Financial Reporting Standards (PFRS) which became effective as of January 1, 2015.

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

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

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

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

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

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

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

Philippine Interpretation IFRIC 21, Levies

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

## 3. Fair Value Hierarchy

The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL, AFS investments and land and buildings measured at revalued amount.

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

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

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

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

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

| | June 30, 2015 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Assets measured at fair value:** | | | | |
| **Financial Assets** | | | | |
| **Financial assets at FVPL:** | | | | |
| **Financial assets at FVPL:** | | | | |
| **Held-for-trading:** | | | | |
| **Government securities** | **₱ 3,822,892** | **₱ 593,965** | **₱–** | **₱4,416,857** |
| **Derivative assets** | **–** | **83,142** | **45,530** | **128,672** |
| **Private debt securities** | **193,610** | **8,070** | **–** | **201,680** |
| **Equity securities** | **257,572** | **–** | **–** | **257,572** |
| **Designated at FVPL:** | | | | |
| **Segregated fund assets** | **6,843,564** | **–** | **5,167,759** | **12,011,323** |
| | **₱11,117,638** | **₱685,177** | **₱5,213,289** | **₱ 17,016,104** |
| **AFS investments:** | | | | |
| **Government securities** | **₱ 38,344,886** | **₱ 12,274,867** | **₱–** | **₱ 50,619,752** |
| **Other debt securities** | **22,841,407** | **2,956,725** | **117,374** | **25,915,506** |
| **Equity securities*** | **2,072,947** | **51,630** | **–** | **2,124,577** |
| | **₱ 74,376,878** | **₱ 15,968,398** | **₱ 5,330,663** | **₱ 95,675,939** |
| | | | | |
| **Financial Liabilities** | | | | |
| **Financial Liabilities at FVPL:** | | | | |
| **Designated at FVPL:** | | | | |
| **Segregated fund liabilities**** | **₱7,182,349** | **₱–** | **₱ 5,167,759** | **₱ 12,350,108** |
| **Derivative liabilities** | **–** | **112,079** | **–** | **112,079** |
| | **₱7,182,349** | **₱ 112,079** | **₱ 5,167,759** | **₱12,462,187** |

| | June 30, 2015 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Assets for which fair values are disclosed:** | | | | |
| **Financial Assets** | | | | |
| **Held to Maturity Investments:** | | | | |
| **Government securities** | **₱22,319,896** | **₱61,559** | | **₱22,381,455** |
| **Loans and Receivables** | | | | |
| **Receivables from customers** | **₱–** | **₱–** | **₱306,123,644** | **₱306,123,644** |
| **Unquoted debt securities** | **₱–** | **₱–** | **6,300,968** | **6,300,968** |
| | **₱22,320,687** | **₱61,559** | **₱312,424,612** | **₱312,424,612** |
| **Non-financial Assets** | | | | |
| **Investment property*** ** | | | | |
| **Land** | **₱–** | **₱–** | **₱26,707,304** | **₱26,707,304** |
| **Buildings and improvements** | **–** | **–** | **3,241,631** | **3,241,631** |
| | **₱–** | **₱–** | **₱29,948,935** | **₱29,948,935** |
| **Liabilities for which fair values are disclosed:** | | | | |
| **Financial Liabilities** | | | | |
| **Financial liabilities at amortized cost** | | | | |
| **Time deposits** | **₱–** | **₱–** | **₱ 56,992,050** | **₱ 56,992,050** |
| **Bills payable** | | | **24,690,059** | **24,690,059** |
| **Subordinated debt** | **–** | **–** | **10,428,667** | **10,428,667** |
| | **₱–** | **₱–** | **₱92,110,776** | **₱92,110,776** |

* *Excludes unquoted available-for-sale securities*

** *Excludes cash component*

*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are*

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | | | | |
| | Valuation Date | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
| **Assets measured at fair value:** | | | | | | |
| **Financial Assets** | | | | | | |
| Financial assets at FVPL: | | | | | | |
| Held-for-trading: | | | | | | |
| Government securities | **12/29/2014** | **₱6,131,278** | **₱3,802,179** | **₱2,329,099** | **₱–** | **₱6,131,278** |
| Private debt securities | **12/29/2014** | **218,193** | **218,193** | **–** | **–** | **218,193** |
| Equity securities | **12/29/2014** | **210,834** | **210,674** | **160** | **–** | **210,834** |
| Derivative assets | **12/29/2014** | **136,551** | **–** | **65,391** | **71,160** | **136,551** |
| Designated at FVPL: | | | | | | |
| Segregated fund assets | **12/29/2014** | **10,654,770** | **5,386,302** | **–** | **5,268,468** | **10,654,770** |
| AFS investments: | | | | | | |
| Government securities | **12/29/2014** | **37,145,450** | **25,983,779** | **11,161,671** | **–** | **37,145,450** |
| Private debt securities | **12/29/2014** | **23,708,156** | **21,377,038** | **2,331,118** | **–** | **23,708,156** |
| Equity securities* | **12/29/2014** | **2,074,200** | **2,074,200** | **–** | **–** | **2,074,200** |
| | | **₱80,279,432** | **₱59,052,365** | **₱15,887,439** | **₱5,339,628** | **₱80,279,432** |
| **Liabilities measured at fair value:** | | | | | | |
| **Financial Liabilities** | | | | | | |
| Financial Liabilities at FVPL: | | | | | | |
| Designated at FVPL: | | | | | | |
| Segregated fund liabilities** | **12/29/2014** | **₱10,654,770** | **₱5,386,302** | **₱–** | **₱5,268,468** | **₱10,654,770** |
| Derivative liabilities | **12/29/2014** | **44,903** | **–** | **44,903** | **–** | **44,903** |
| | | **₱10,699,673** | **₱5,386,302** | **₱44,903** | **₱5,268,468** | **₱10,699,673** |
| **Assets for which fair values are disclosed:** | | | | | | |
| **Financial Assets** | | | | | | |
| HTM investments | **12/29/2014** | **₱22,970,306** | **₱20,584,890** | **₱3,983,878** | **₱–** | **₱24,568,768** |
| Loans and Receivables: | | | | | | |
| Receivables from customers | **12/29/2014** | **296,372,069** | **–** | **–** | **316,486,735** | **316,486,735** |
| Unquoted debt securities | **12/29/2014** | **4,425,005** | **–** | **–** | **6,013,057** | **6,013,057** |

| | Valuation Date | Carrying Value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|
| | | Consolidated | | | | |
| | | 2014 | | | | |
| | | ₱323,767,380 | ₱20,584,890 | ₱3,983,878 | ₱322,499,792 | ₱347,068,560 |
| **Non-financial Assets** | | | | | | |
| Investment property:*** | | | | | | |
| Land | 2014 | ₱18,217,858 | ₱– | ₱– | ₱24,326,385 | ₱24,326,385 |
| Buildings and improvements | 2014 | 2,030,624 | – | – | 3,355,569 | 3,355,569 |
| **Financial Liabilities** | | | | | | |
| Financial liabilities at amortized cost: | | | | | | |
| Time deposits | 12/29/2014 | ₱52,881,409 | ₱– | ₱– | ₱55,296,115 | ₱55,296,115 |
| Bills payable | 12/29/2014 | 18,683,205 | – | – | 18,340,370 | 18,340,370 |
| Subordinated debt | 12/29/2014 | 9,969,498 | – | – | 10,593,485 | 10,593,485 |
| | | ₱81,534,112 | ₱– | ₱– | ₱84,229,970 | ₱84,229,970 |

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

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

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

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

As of June 30, 2015 and December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

| | Consolidated | |
|---|---|---|
| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
| **Financial assets** | | |
| Balance at beginning of year | ₱5,339,628 | ₱5,545,916 |
| Fair value changes recognized in profit or loss | (8,965) | (206,268) |
| Balanc at end of year | ₱5,330,663 | ₱5,339,628 |
| Balance at beginning of year | ₱5,268,468 | ₱6,380,053 |
| Fair value changes recognized in profit or loss | (100,709) | (111,585) |
| Balance at end of year | ₱5,167,759 | ₱5,268,468 |

Equity and/or Credit-Linked Notes are shown as ‘Segregated Fund Assets’ under ‘Financial Assets at FVPL’.

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty’s credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques are as follows:

| Structured Notes | Valuation Methods | Significant Unobservable Inputs | Significant Observable Inputs |
|---|---|---|---|
| Peso-denominated | DCF Method / Monte Carlo Simulation | Issuer's Funding rate / Issuer's CDS as proxy | PHP IRS |
| Dollar-denominated | DCF Method / Monte Carlo Simulation | Issuer's Funding rate / Issuer's CDS as proxy | ROP CDS / USD IRS |

The sensitivity analysis of the fair market value of the structured notes as of June 30, 2015 and December 31, 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:

| | | 2014 | |
|---|---|---|---|
| **Structured Investments** | **Significant Unobservable Input** | **Range of Input** | **Sensitivity of the Input to Fair Value*** |
| **Peso-denominated** | **Bank CDS Levels** | **44.00 - 95.67 bps** | **50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱90,838,042** |
| **Dollar-denominated** | **Bank CDS Levels** | **35.21 - 78.08 bps** | **50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217** |

* *The sensitivity analysis is performed only on the bond component of the Note.*

Sensitivity of the fair value measurement to changes in observable inputs:

| | | 2014 | |
|---|---|---|---|
| **Structured Investments** | **Significant Observable Input** | **Range of Input** | **Sensitivity of the Input to Fair Value*** |
| **Peso-denominated** | **PHP IRS (3Y)** | **142.00 - 375.00 bps** | **50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱90,838,042** |
| **Dollar-denominated** | **ROP CDS (5Y)** | **79.31 - 150.94 bps** | **50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217** |

* *The sensitivity analysis is performed only on the bond component of the Note.*

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties are as follow:

<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 | It is an estimate of the investment required to duplicate the property |

| | |
|---|---|
| Valuation Techniques Approach | in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New. |
| Significant Unobservable Inputs | |
| Price per square meter | Ranges from ₱800 to ₱100,000 |
| Reproduction Cost New | The cost to create a virtual replica of the existing structure, employing the same design and similar building materials. |
| Size | Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value. |
| Shape | Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property. |
| Location | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road. |
| Time Element | An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time. In which case, the current data is superior to historic data. |
| Discount | Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent. |
| Corner influence | Bounded by two (2) roads. |

## 4. Financial Risk Management

The bank's Capital Adequacy Ratio as of end of June 2015 stands at 19.59% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end June 2015 amounted to ₱ 440,979 million composed of ₱ 397,037 million (Credit Risk Weighted Assets), ₱4,400 million (Market Risk Weighted Assets) and ), ₱ 39,542 million (Operational Risk Weighted Assets).

The Board of Directors has the ultimate responsibility for the risk appetite of Philippine National Bank and the monitoring of risks on a regular basis. Risk governance is undertaken by a structured hierarchy of committees (both at board level and at the executive / management level) each with specified accountabilities.

The continuous flow of information between the board and board-level committees and the corresponding management committees; allow for consistent evaluation of the risks inherent in the business, raise the alarms, if any, and manage the business effectively with strong adherence to process management guidelines and controls.

Figure 1 below provides a list of the board level committees and management committees.

Members of the senior management team play a pivotal role in the day-to-day running of the bank. Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the bank's board of directors.

The bank's business objectives are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.

**Board of Directors**

- Credit & Policy Committee
- Credit Policy Committee
- Corporate Governance / Nomination Committee
- Board Audit and Compliance Committee
- Board Risk Oversight Committee
- Board ICAAP Committee
- Trust Committee
- Board Overseas Oversight Committee
- Board Oversight RPT Committee
- Board Information Technology Governance Committee

**President & CEO**

- Senior Management Committee
- Asset Liability Committee (with sub committee on Capital Management)
- Senior Management Credit Committee
- Information Technology Management Committee
- Non-Performing Assets Committee
- Acquired Assets Disposal Committee
- Promotions Committee
- Operations Committee
- Product Committee
- Bids and Awards Committee
- Information Technology Evaluation Committee
- Senior Management ICAAP Steering Committee
- Anti-Money Laundering Review Committee
- Integration Monitoring Committee
- Accreditation of Overseas Remittance Agent Committee
- Selections Committee for Expatriate Personnel
- Branch Site Selection Committee

**Figure 1: Board & Management Committees**

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

The Risk Management Group (RMG) is independent from the business lines and is organized in 7 divisions: Credit Risk Management Division, ICAAP & BASEL Implementation Division, Market Risk & ALM Division, Operational Risk Management Division, Information Security and Technology Risk Division, Trust Risk Division and Business Intelligence & Data Warehouse Division.

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

**Risk Categories and Definitions**

***Emerging Risks***
Among the **emerging risks** that the bank faces are those involving information security:

1. ATM Skimming where the bank's clients are exposed to threats of financial losses due to compromise of ATM machines. PNB and other banks' machines are installed with devices to cloning of ATM card which illegally copies account details. Fraudsters use the details to create a fake or 'cloned' card and proceed to withdraw money from ATM Machines.

PNB has institutionalized alert mechanism to immediately inform the clients of probable compromise and block the accounts for immediate client protection. The clients are then requested to confirm with their PNB branch of account to re-issue "cleaned" cards. Further, the bank has implemented the ATM SAFE product which provides insurance protection to clients for cases like these, among others.

PNB has also embarked on the EMV project that will provide additional protection for our clients. EMV (which stands for **E**uropay**M**asterCard**V**isa), is a technical standard for smart payment cards and for payment terminals and automated teller machines which can accept them. EMV chip card transactions improve security against fraud compared to magnetic stripe card transactions that rely on the holder's signature and visual inspection of the card to check for features such as hologram.

2. Credit Card Skimming where bank credit card holders are exposed to threats of financial losses due to theft of credit card details to create fake and "cloned" credit cards. Fraudsters then use these fake cards to purchase items which will be charged to the legitimate credit card holder.

Skimming occurs most frequently at retail outlets that process credit card payments -- particularly bars, restaurants and gas stations. PNB's Credit Card Division continues to provide awareness memoranda, via various media channels to increase client awareness to protect their identity for credit cards. The bank has institutionalized an SMS alert to clients to inform them of their use of said cards and enjoining clients to immediately report untoward activities.

Further the bank has embarked on the EMV project (see #1 above) where identity chips will replace the outdated magnetic strips. This is expected to go-live by late 2016.

3. Cyber threats involving use of social engineering which may involve psychological manipulation of clients and personnel into performing actions and /or divulging confidential information. This can result to negative financial impact to both client and the bank. PNB has institutionalize various risk mitigating tools and activities to minimize, if not, eliminate the said cyber threats – installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). The Bank has also implemented segmentation to control access within a given segment. Policy on regular change of password is implemented to prevent password guessing or unauthorized access. Policy on password tries is limited to prevent brute-force attack. Education / InfoSec Awareness is also conducted.

***Risk Categories Regularly Monitored***

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

| Risk Category | Risk Definition | Risk Monitoring Process | Risk Management Tools |
|---|---|---|---|
| **Market Risk** | Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market. | ▪ Value at Risk Utilization<br>▪ Results of Marking to Market<br>▪ Risks Sensitivity/Duration Report<br>▪ Exposure to Derivative/Structured Products | ▪ VAR Limits<br>▪ Stop Loss Limits<br>▪ Potential Loss Alerts<br>▪ ROP Exposure Limit<br>▪ Limit to Structured Products<br>▪ 30-day AFS Holding Period<br>▪ Traders' Limit<br>▪ Exception Report on Rate Tolerance |
| **Credit Risk (including Credit Concentration Risks and Counterparty Risks)** | Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. | ▪ Loan Portfolio Analysis<br>▪ Credit Dashboards | ▪ Trend Analysis (Portfolio / Past Due and NPL Levels<br>▪ Regulatory and Internal Limits<br>▪ Stress Testing<br>▪ Rapid Portfolio Review<br>▪ CRR Migration<br>▪ Movement of Portfolio<br>▪ Concentrations and Demographics Review<br>▪ Large Exposure Report<br>▪ Counterparty Limits Monitoring<br>▪ Adequacy of Loan Loss Reserves Review |

| | | | |
|---|---|---|---|
| **Country Risks** | Country risk refers to uncertainties arising from economic, social and political conditions of a country which may cause obligors in that country to be unable or unwilling to fulfill their external obligations | ▪ Risk identification<br>▪ Risk Measurement<br>▪ Risk Evaluation (i.e. Analysis of Risk)<br>▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) | ▪ Country Risk Limits Monitoring<br>▪ Limits to Exposures to ROPs<br>▪ Limits to exposures on CLNs and Structured Products |
| **Operational Risk** | Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. It encompasses: product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment. | ▪ Risk Identification<br>▪ Risk Measurement<br>▪ Risk Evaluation (i.e. Analysis of Risk)<br>▪ Risk Management (i.e. Monitor, Control or Mitigate Risk)<br><br>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:<br>1. Risk Identification – Risk Maps<br>2. Risk Measurement and Analysis – ICAAP Risk Assessment<br><br>Major Integration Factors considered:<br>1. Products<br>2. Technology<br>3. People<br>4. Policies and Processes<br>▪ Stakeholders (including customer and regulators | ▪ Internal Control<br>▪ Board Approved Operating Policies and Procedures Manuals<br>▪ Board Approved Product Manuals<br>▪ Loss Events Report (LER)<br>▪ Risk and Control Self-Assessment (RCSA)<br>▪ Key Risk Indicators (KRI)<br>▪ Business Continuity Management (BCM)<br>▪ Statistical Analysis |
| **Liquidity Risk** | Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due. | ▪ Funding Liquidity Plan<br>▪ Liquidity Ratios<br>▪ Large Fund Providers<br>▪ MCO<br>▪ Liquid Gap Analysis | ▪ MCO Limits<br>▪ Liquid Assets Monitoring<br>▪ Stress testing<br>▪ Large Fund Provider Analysis<br>▪ Contingency Planning |
| **Interest Rate Risk in the Banking Books** | Interest rate risk is the current and prospective risk to | ▪ Interest Rate Gap Analysis<br>▪ Earnings at Risk | ▪ EAR Limits<br>▪ Stress Testing<br>▪ Balance Sheet |

| | | | |
|---|---|---|---|
| **(IRBB)** | earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006) | Measurement | ▪ Profiling<br>▪ Repricing Gap Analysis |
| **Included in the Operational Risks:** | | | |
| **Process Management Risk** | Process Management Risk is the current and prospective risk to earnings or capital arising from poor or failed transaction processing or poor management of the process. These losses could be due to individual mistakes or due to a poor process itself. | ▪ Risk Identification<br>▪ Risk Measurement<br>▪ Risk Evaluation (i.e. Analysis of Risk)<br>▪ Risk Management ( i.e. Monitor, Control or Mitigate Risk)<br><br>Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:<br>1. Risk Identification – Risk Maps<br>2. Risk Measurement and Analysis – ICAAP Risk Assessment<br><br>Major Integration Factors considered:<br>1. Products<br>2. Technology<br>3. People<br>4. Policies and Processes<br>5. Stakeholders (including customer and regulators | ▪ Internal Control<br>▪ Board Approved Operating Policies and Procedures Manuals<br>▪ Board Approved Product Manuals<br>▪ Loss Events Report (LER)<br>▪ Risk and Control Self-Assessment (RCSA)<br>▪ Key Risk Indicators (KRI)<br>▪ Business Continuity Management (BCM)<br>▪ Statistical Analysis |
| **Technology (including Information Security Risks / Technology** | Information Technology Risk is a business risk associated with the use, ownership, | | ▪ RiskAsset Register<br>▪ Incident Reporting Management |

| | | | |
|---|---|---|---|
| **Integration – delay in Core Banking Project Implementation)** | operation, involvement, influence and adoption of IT within the Bank (ISACA Risk IT Framework). IT Risk results to Information Security Risk since the risk would somehow result to non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset (NIST IR 7298 Revision 2). Technology Integration risk is another aspect and is defined as the negative impact on the organization for the possible delay or failure of the institution to integrate its various systems application, such as the Core Banking implementation. It also includes the risk of delay in appropriate servicing of clients requirements to maintain competitiveness in the market & prevent reputational risks. | | ▪ Information Security Policy Formulation<br>▪ Project Management Framework<br>▪ Risk Assessment<br>▪ Project Progress Reporting<br>▪ Approvals for major scope changes<br>▪ Risk Assessment for new/upgrade of information / automated systems<br>▪ Harmonization Timeline Tracking |
| **Strategic Risks** | Strategic business risk is the current and prospective impact on earnings or capital arising | | ▪ Management Profitability Reports<br>▪ Benchmarking vis-a-vis Industry, |

| | | | |
|---|---|---|---|
| | from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. | | Peers<br>▪ Economic Forecasting |
| **Customer Franchise & Reputational Risk** | Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion.<br>Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services. | | ▪ Account Closures Report<br>▪ Service Desk Customer Issues Report<br>▪ Evaluation/ Risk Mitigation of negative media coverage<br>▪ Review of Stock Price performance |
| **Litigation Risk (under Legal Risk)** | Litigation risk is the likelihood or possibility that the Bank will suffer a financial loss due to payment of damages or other form of financial sanction as a result of losing a case, whether in a litigious or non-litigious setting. Litigation risk focuses on the completeness and timeliness of filing of various pleadings before appropriate courts and other administrative or adjudicatory bodies in connection with | | ▪ Status of Legal Cases >Ph50MM at risk<br>▪ Review of pending tax assessment/s<br>▪ Adequate provisioning for probable losses<br>▪ Issuance of circulars, tax guidelines and procedures |

| | | | |
|---|---|---|---|
| | cases or actions filed for and against the Bank. | | |
| **Natural Events (including Man-made) Risks** | Natural Events Risk is the current and prospective risk to earnings or capital arising from natural catastrophes considered as costly events causing business disruption such as fire, earthquake, typhoon, flood, any form of terrorist acts, etc. | | ▪ Implementation of the BCP Program to include the completion of Call Tree Exercise, Business Impact Analysis, Risk Assessment of Threats to Business, Table Top and BCP Testing by all units of the group<br>▪ Continuous Upgrade / Update of the Disaster Recovery Program under the auspices of IT Group<br>▪ |
| **New Regulations Risk (under Compliance Risk)** | New Regulations Risk is the current and prospective risk to earnings or capital arising from highly regulated jurisdiction and when rules and regulations are constantly changing. It is an important qualitative risk which must be monitored and managed, as regulatory sanctions from non-compliance, especially in extreme cases, may involve not just mere loss of reputation or financial penalties, but in extreme cases, a revocation of the banking charter or franchise (BAP Risk Manual, P103). | ▪ Compliance Visitation/testing of operating units<br>▪ Compliance checklist/testing questionnaires<br>▪ Project Implementation Monitoring (particularly for data aggregation and reporting compliance)<br>▪ Risk Supervision Guidelines<br>▪ RCSA Matrix for operating and non-operating units;<br>▪ Discussions and deliberations of updates to compliance for new regulations by the Board of Directors and the different Board Committees;<br>▪ IAGs Audit Rating System / Review for compliance to new regulations<br>▪ Other activities that | ▪ Circularization of new laws, circulars and regulations;<br>▪ Creation of Adhoc task Forces to perform gap analysis on compliance and subsequent planned activities for implementation<br>▪ Issuance of internal general and selected circulars by the implementing office;<br>▪ Information awareness campaigns for new regulations and impact to products, services, processes |

| | | | |
|---|---|---|---|
| | | may measure and record the results of compliance with banking laws, rules and regulations | |

## 5. Segment Information

Business Segments
The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Other Segments - include Global Filipino Banking Group, Trust Banking Group, Domestic Subsidiaries, Insurance, Leasing, Remittances and other support services. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on a pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BODandSenior Management Team (SMT) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to SMT represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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

Business segment information of the Group follows:

| | Six Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Others | Adjustments and Eliminations* | Total |
| Interest income | ₱464,729 | ₱6,829,974 | ₱2,963,855 | ₱81,874 | ₱346,364 | ₱10,686,794 |
| Interest expense | 789,131 | 663,583 | 568,768 | 11,008 | (34,416) | 1,998,073 |
| Net interest margin | (324,403) | 6,166,391 | 2,395,087 | 70,866 | 380,780 | 8,688,720 |
| Other income | 568,922 | 2,621,223 | 647,256 | 1,099,672 | 961,442 | 5,898,515 |
| Other expenses | 1,924,762 | 2,201,956 | 578,521 | 848,663 | 1,105,402 | 6,659,303 |
| Segment result | (1,680,243) | 6,585,658 | 2,463,822 | 321,875 | 236,820 | 7,927,932 |
| Inter-segment | | | | | | |
| Imputed income | ₱1,900,982 | ₱– | ₱– | ₱– | ₱– | ₱1,900,982 |
| Imputed cost | – | (1,809,416) | (91,566) | – | – | ₱(1,900,982) |
| Segment result to third party | ₱ 220,739 | ₱4,776,242 | ₱2,372,256 | ₱321,875 | ₱236,820 | 7,927,932 |
| Unallocated expenses | | | | | | 3,440,466 |
| Net income before share in net income of an associate and income tax | | | | | | |
| Share in net income of an associate | | | | | | |
| Net income before income tax | | | | | | 4,487,466 |
| Income tax | | | | | | 889,505 |
| Net income | | | | | | 3,597,962 |
| Non-controlling interest | | | | | | 99,163 |
| Net income for the year attributable to equity holders of the Parent Company | | | | | | ₱3,498,798 |
| Other Segment Information | | | | | | |
| Capital expenditures | ₱ 752,069 | ₱ 3,878 | ₱ 1,332 | ₱ 159,415 | ₱ (114,334) | ₱ 802,360 |
| Depreciation and amortization | ₱ 195,971 | ₱ 67,884 | ₱ 3,866 | ₱ 6,267 | ₱ 119,112 | ₱393,099 |
| Unallocated depreciation and amortization | | | | | | 351,769 |
| Total depreciation and amortization | | | | | | ₱744,869 |
| Provision for impairment, credit and other losses | ₱ 25,761 | ₱ (163,193) | ₱ (727) | ₱ (1,386) | ₱ 728,601 | ₱ 589,056 |

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

| | As of June30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Others | Adjustments and Eliminations* | Total |
| Segment assets | ₱ 330,430,219 | ₱ 245,465,640 | ₱174,865,157 | ₱211,311,273 | ₱(319,531,830) | ₱ 642,540,458 |
| Unallocated assets | | | | | | 2,141,170 |
| Total assets | | | | | | ₱ 644,681,628 |
| Segment liabilities | ₱ 558,097,994 | ₱42,177,625 | ₱ 50,950,638 | ₱ 130,983,914 | ₱(297,290,428) | ₱ 484,919,743 |
| Unallocated liabilities | | | | | | 57,054,174 |
| Total liabilities | | | | | | ₱ 541,973,917 |

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

| | Six Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Others | Adjustments and Eliminations* | Total |
| Interest income | ₱ 1,194,325 | ₱6,592,248 | ₱2,154,825 | ₱316,089 | ₱(71,760) | ₱10,185,726 |
| Interest expense | 1,147,737 | 192,184 | 661,728 | 4,037 | (206,551) | 1,800,026 |
| Net interest margin | 46,598 | 6,400,064 | 1,493,097 | 311,152 | 134,791 | 8,385,700 |
| Other income | 1,433,569 | 1,929,906 | 608,149 | 1,987,869 | 177,908 | 6,137,402 |
| Other expenses | 3,145,717 | 2,184,297 | 103,167 | 1,393,827 | 198,269 | 7,400,668 |
| Segment result | (1,665,550) | 6,145,674 | 1,998,079 | 905,194 | 114,430 | 7,122,434 |
| Inter-segment | | | | | | |
| Imputed income | ₱1,827,302 | ₱– | ₱– | ₱– | ₱– | ₱1,827,302 |
| Imputed cost | – | (1,435,467) | (391,835) | – | – | (1,827,302) |
| Segment result to third party | ₱161,752 | ₱4,710,207 | ₱1,606,244 | ₱905,194 | ₱(260,962) | 7,122,434 |
| Unallocated expenses | | | | | | 3,026,136 |
| Net income before share in net income of an associate and income tax | | | | | | |
| Share in net income of an associate | | | | | | |

| | Six Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Retail Banking** | **Corporate Banking** | **Treasury** | **Others** | **Adjustments and Eliminations*** | **Total** |
| Net income before income tax | | | | | | **4,096,298** |
| Income tax | | | | | | **886,924** |
| Net income | | | | | | **3,209,374** |
| Non-controlling interest | | | | | | **55,935** |
| Net income for the year attributable to equity holders of the Parent Company | | | | | | **₱3,153,439** |
| Other Segment Information | | | | | | |
| Capital expenditures | **₱346,118** | **₱23,675** | **₱ 1,097** | **₱289,213** | **(₱8,820)** | **₱651,283** |
| Depreciation and amortization | **₱ 91,540** | **₱79,657** | **₱3,719** | **₱363,814** | **₱ 308,949** | **₱847,679** |
| Unallocated depreciation and amortization | | | | | | **140,990** |
| Total depreciation and amortization | | | | | | **₱988,669** |
| Provision for impairment, credit and other losses | **₱69,032** | **₱54,597** | **₱18** | **₱2,207** | **₱806,188** | **₱932,042** |

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

| | As of December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Banking | Corporate Banking | Treasury | Others | Adjustments and Eliminations* | Total |
| Segment assets | **₱300,295,603** | **₱233,760,262** | **₱183,055,599** | **₱107,472,631** | **(₱200,620,538)** | **₱623,963,557** |
| Unallocated assets | | | | | | **1,482,275** |
| Total assets | | | | | | **₱625,445,832** |
| Segment liabilities | **₱432,785,391** | **₱42,364,978** | **₱39,121,272** | **₱141,501,009** | **(₱255,648,228)** | **₱400,124,422** |
| Unallocated liabilities | | | | | | **126,260,528** |
| Total liabilities | | | | | | **₱526,384,950** |

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities and credit commitments items as of June 30, 2015 and December 31, 2014 and capitalized expenditures and revenues for the six month periods ended June 30, 2015 and June 30, 2014 by geographic region of the Group follows:

| | **Assets** | | **Liabilities** | | **Credit Commitments** | |
|---|---|---|---|---|---|---|
| | **June 30, 2015** | **December 31, 2014** | **June 30, 2015** | **December 31, 2014** | **June 30, 2015** | **December 31, 2014** |
| Philippines | **₱602,846,744** | **₱ 592,574,950** | **₱514,209,828** | **₱ 506,034,141** | **₱ 15,154,522** | **₱15,661,774** |
| Asia (excluding Philippines) | **33,068,058** | **24,101,673** | **23,226,713** | **15,572,732** | **276,701** | **467** |
| USA and Canada | **6,986,881** | **7,050,528** | **3,563,126** | **3,639,786** | **43** | **8,104** |
| Europe | **1,779,946** | **1,718,681** | **974,251** | **1,138,291** | **–** | **–** |
| | **₱644,681,629** | **₱ 625,445,832** | **₱541,973,918** | **₱ 526,384,950** | **₱ 15,431,266** | **₱15,670,345** |

| | **Capital Expenditures** | | **Revenues** | |
|---|---|---|---|---|
| | **June 30, 2015** | **June 30, 2014** | **June 30, 2015** | **June 30, 2014** |
| Philippines | **₱778,705** | **₱582,422** | **₱16,004,979** | **₱15,265,399** |
| Asia (excluding Philippines) | **11,572** | **2,282** | 595,120 | **680,312** |
| USA and Canada | **10,430** | **1,389** | **279,915** | **280,802** |
| Europe | **1,653** | **65,192** | **79,979** | **87,619** |
| | **₱802,360** | **₱651,283** | **₱16,959,993** | **₱16,323,132** |

The Philippinesis the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the business segments.

## 6. Due from BSP

As of June 30, 2015 and December 31, 2014, 20.48% and 29.35% of the Parent Company's Due from BSP are placed under the SDA with the BSP. Those SDAs bear interest at annual interest rates of 2.5% as of June 30, 2015 and annual interest ranging from 2.00% to 3.00% as of December 31, 2014.

## 7. Trading and Investment Securities

The Group has the following trading and investment securities:

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| Financial assets at FVPL | 17,016,104 | ₱17,351,626 |
| AFS investments | 80,000,306 | 63,091,497 |
| HTM investments | 23,857,490 | 22,970,306 |
| | 120,873,900 | ₱103,413,429 |

Financial Assets at FVPL

This account consists of:

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| Held-for-Trading: | | |
| Government securities | ₱4,416,857 | ₱6,131,278 |
| Private debt securities | 184,400 | 218,193 |
| Derivative assets | 128,672 | 136,551 |
| Equity securities | 257,641 | 210,834 |
| | 4,987,570 | 6,696,856 |
| Designated at FVPL: | | |
| Segregated fund assets | 12,028,534 | 10,654,770 |
| Private debt securities | | – |
| | ₱17,016,104 | ₱17,351,626 |

AFS Investments

This account consists of:

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| Government securities | ₱51,363,161 | ₱37,145,450 |
| Other debt securities | 26,023,511 | 23,708,156 |
| Equity securities - net of allowance for impairment losses of₱0.9 billion | 2,613,634 | 2,237,891 |
| | ₱80,000,306 | ₱63,091,497 |

Trading and investment securities gains - net

This account consists of:

| | Six Months Ended | |
|---|---|---|
| | June 30, 2015 (Unaudited) | June 30, 2014 (Unaudited) |
| Financial assets at FVPL: | | |
| Held-for-trading | **₱ (60,857)** | **₱127,924** |
| Derivatives | **(69,347)** | **240,955** |
| Designated at FVPL | **-** | **-** |
| AFS investments | | |
| Government securities | **244,161** | **826,556** |
| Other debt securities | **251,462** | **-** |
| Equity securities | **-** | **-** |
| Financial liabilities at FVPL: | | |
| Derivative liabilities | **-** | **-** |
| Designated at FVPL | **-** | **-** |
| | **₱365,419** | **₱1,195,435** |

## 8. Loans and Receivables

This account consists of:

| | June30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| Receivable from customers: | | |
| Loans and discounts | **₱310,129,007** | **₱279,256,983** |
| Customers' liabilities on acceptances, letters of credit and trust receipts | **9,059,934** | **11,594,905** |
| Bills purchased | **4,389,545** | **4,878,682** |
| Credit card receivables | **4,738,391** | **4,390,966** |
| Lease contracts receivable | **3,559,795** | **3,324,277** |
| | **331,876,672** | **303,445,813** |
| Less unearned and other deferred income | **1,877,095** | **1,261,386** |
| | **329,999,577** | **302,184,427** |
| Unquoted debt securities | **4,262,703** | **8,044,272** |
| Other receivables: | | |
| Accounts receivable | **8,042,137** | **8,993,706** |
| Accrued interest receivable | **4,818,240** | **4,756,699** |
| Sales contract receivables | **4,724,020** | **4,267,338** |
| Miscellaneous | **431,279** | **442,088** |
| | **18,015,676** | **18,459,831** |
| | **352,277,956** | **328,688,530** |
| Less allowance for credit losses | **12,532,785** | **12,435,509** |
| | **₱339,745,171** | **₱316,253,021** |

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

| | Consolidated | | | |
|---|---|---|---|---|
| | June 30, 2015 | | December 31, 2014 | |
| | Carrying Amount | % | Carrying Amount | % |
| Primary target industry: | | | | |
| Wholesale and retail | ₱43,914,574 | 13.23 | ₱44,259,825 | 14.59 |
| Electricity, gas and water | 43,151,329 | 13.00 | 43,111,698 | 14.21 |
| Manufacturing | 45,724,152 | 13.78 | 40,789,519 | 13.44 |
| Financial intermediaries | 38,740,424 | 11.67 | 37,940,739 | 12.50 |
| Public administration and defense | 26,244,590 | 7.91 | 23,464,016 | 7.73 |
| Transport, storage and communication | 26,866,140 | 8.10 | 19,342,572 | 6.38 |
| Agriculture, hunting and forestry | 5,089,145 | 1.53 | 4,343,522 | 1.43 |
| Secondary target industry: | | | | |
| Real estate, renting and business activities | 44,072,278 | 13.28 | 39,672,249 | 13.07 |
| Construction | 8,173,094 | 2.46 | 8,508,366 | 2.80 |
| Others | 49,900,946 | 15.04 | 42,013,307 | 13.85 |
| | ₱331,876,672 | 100.00 | ₱303,445,813 | 100.00 |

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

| | June30, 2015 (Unaudited) | | December 31, 2014 (Audited) | |
|---|---|---|---|---|
| | Carrying Amount | % | Carrying Amount | % |
| Secured: | | | | |
| Real estate mortgage | ₱69,400,075 | 20.91 | ₱68,910,935 | 22.71 |
| Chattel mortgage | 13,505,327 | 4.07 | 10,341,429 | 3.41 |
| Bank deposit hold-out | 3,928,085 | 1.18 | 6,336,908 | 2.09 |
| Shares of stocks | 36,072 | 0.01 | 35,776 | 0.01 |
| Others | 32,316,899 | 9.74 | 39,354,446 | 12.97 |
| | 119,186,458 | 35.91 | 124,979,494 | 41.19 |
| Unsecured | 212,690,214 | 64.09 | 178,466,319 | 58.81 |
| | ₱331,876,672 | 100.00 | ₱ 303,445,813 | 100.00 |

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

| | June 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|---|
| Secured | ₱6,064,941 | ₱6,960,289 |
| Unsecured | 3,002,126 | 2,960,524 |
| | ₱9,067,067 | ₱9,920,813 |

9. **Property and Equipment**

For the sixmonths ended June 30, 2015, the Group purchased assets with a cost of ₱802.4 million and disposed assets with net book value of ₱119.7 million.

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

## 10. Investment Properties

For the six months ended June 30, 2015, the Group received foreclosed assets with a fair value of₱265.1 million as settlement of the NPLs. Also, assets with net book value of ₱847.6 million were disposed of by the Group during the three months ended June 30, 2015.

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

As of June 30, 2015 and December 31, 2014, the balance of accumulated impairment losses on investment properties amounted to ₱3.7 billion.

The aggregate fair value of the Group's investment properties as of June 30, 2015 and December 31, 2014 amounted to ₱29.5 billion and ₱29.4 billion, respectively. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

## 11. Financial Liabilities

*Bills and Acceptances Payable*
Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.03% to 2.50% and from 0.03% to 2.50% as of June 30, 2015 and December 31, 2014, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.63% to 2.00%, from 0.63% to 2.00% as of June 30, 2015 and December 31, 2014, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.7 billion as of June 30, 2015 and December 31, 2014.

Bills payable includes funding from the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions. Lending to such programs is shown under 'Loans and Receivables'.

As of December 31, 2014, bills payable with a carrying value of ₱14.1 billion is secured by a pledge of certain AFS and HTM investments with fair value of ₱8.5 billion and ₱8.9 billion, respectively.

*Subordinated Debt*

<u>5.875% ₱3.5 Billion Subordinated Notes</u>
On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.04%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August,

November, February and June of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

6.75% ₱6.5 Billion Subordinated Notes
On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

## 12. **Equity**

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

| | Shares | | Amount | |
|---|---|---|---|---|
| | **June 30, 2015 (Unaudited) (Six Months)** | **December 31, 2014 (Audited) (One Year)** | **June 30, 2015 (Unaudited) (Six Months)** | **December 31, 2014 (Audited) (One Year)** |
| **Common - ₱40 par value** | | | | |
| Authorized | **1,750,000,001** | **1,750,000,001** | **70,000,000,040** | **70,000,000,040** |
| Issued and Outstanding | | | | |
| Balance at the beginning of the period | **1,249,139,678** | **1,086,208,416** | **49,965,587,120** | **43,448,336,640** |
| Issued during the period | **-** | **162,931,272** | **-** | **6,517,250,480** |
| | **1,249,139,678** | **1,249,139,678** | **49,965,587,120** | **49,965,587,120** |

Stock Rights Offering
The Parent Company has successfully completed its stock rights offering of common shares following the closure of the offer period on February 3, 2014. A total of 162,931,262 Rights Shares were issued to Eligible Shareholders at a proportion of fifteen (15) Rights Share for every one hundred existing Common Shares held as of the record date of January 16, 2014 at the Offer price of ₱71.00 per Right Share. 33,218,348 common shares were listed on February 11, 2014 while the remaining shares were listed on July 25, 2014.

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

Regulatory Qualifying Capital
On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements

for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

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

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

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

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

Restrictions to Amounts for Dividend Declaration

Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.0 billion which represents the balances of accumulated translation adjustment and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and BSP.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended June 30, 2015 and June 30, 2014 (amounts in millions):

| | **June 30, 2015 (Unaudited) (SixMonths)** | **June30, 2014 (Unaudited) (Six Months)** |
|---|---|---|
| Return on average equity (a/b) | **7.2%** | **7.5%** |
| a.) Net income | **₱3,598** | **₱3,209** |
| b.) Average total equity 1/ | **100,885** | **86,615** |
| Return on average assets (c/d) | **1.1%** | **1.1%** |
| c.) Net income | **₱3,598** | **₱3,209** |
| d.) Average total assets 1/ | **635,064** | **609,935** |
| Net interest margin on average earning assets (e/f) | **3.3%** | **3.1%** |
| e.) Net interest income | **₱8,689** | **₱8,386** |
| f.) ADB of interest earning assets | **536,401** | **542,460** |

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

13. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

| | Six Months Ended | |
|---|---|---|
| | **June 30, 2015 (Unaudited)** | **June 30, 2014 (Unaudited)** |
| Rental and leasing income | **₱126,339** | **₱260,582** |
| Income from sale of Convertible Notes | **-** | **608,433** |
| Recoveries | **79,541** | **22,929** |
| Sales deposit forfeiture | **3,406** | **1,111** |
| Leasing and financing | **-** | **83,866** |
| Underwriting and arranger's fee | **-** | **153,856** |
| Referral and trust fees | **65,791** | **-** |
| Insurance Claims | **758,361** | **-** |
| Others | **274,027** | **32,036** |
| | **1,307,465** | **₱1,162,813** |

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

Miscellaneous expenses consist of:

| | Semester Ended | |
|---|---|---|
| | **June 30, 2015 (Unaudited)** | **June 30, 2014 (Unaudited)** |
| Insurance | **₱ 538,887** | **₱495,109** |
| Security, clerical, messengerial | **433,188** | **433,327** |
| Information technology | **220,489** | **205,667** |
| Management and professional fees | **138,504** | **175,113** |
| Transportation and travel | **89,579** | **143,239** |
| Stationery and supplies used | **55,726** | **116,356** |
| Litigation | **95,196** | **112,953** |
| Repairs and maintenance | **47,862** | **38,832** |
| Postage, telephone and telegram | **86,236** | **74,312** |
| Amortization of software costs | **-** | |
| Marketing expenses | **237,455** | **344,628** |
| Others | **(632,083)** | **144,456** |
| | **₱1,311,039** | **₱2,283,992** |

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

## 14. **Income Taxes**

| Provision for income tax consists of: | Semester Ended | |
|---|---|---|
| | **June 30, 2015 (Unaudited)** | **June 30, 2014 (Unaudited)** |
| Current | | |
| Regular | **₱686,599** | **₱607,927** |
| Final | **242,839** | **295,748** |
| | **929,438** | **903,675** |
| Deferred | **(39,933)** | **(16,751)** |
| | **₱889,505** | **₱886,924** |

## 15. **Earnings Per Share**

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

| | Semester Ended | |
|---|---|---|
| | **June 30, 2015 (Unaudited)** | **June 30, 2014 (Unaudited)** |
| a) Net income attributable to equity holders of the Parent Company | **₱ 3,498,798** | **₱3,153,444** |
| b) Weighted average number of common shares for basic earnings per share | **1,249.140** | **1,108.354** |
| c) Basic and diluted earnings per share (a/b) | **₱2.80** | **₱2.85** |

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

## 16. **Related Party Transactions**

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.0% 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 15.0% of the Parent Company's total loan portfolio, whichever is lower. As of June 30, 2015 and December 31, 2014, the Parent Company was in compliance with such regulations.

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

| | **June 30, 2015 (Unaudited)** | **December 31, 2014 (Audited)** |
|---|---|---|
| Total Outstanding DOSRI Accounts* | **₱12,059,420** | **₱12,749,637** |
| Percent of DOSRI accounts to total loans | **3.61%** | **4.20%** |

| | | |
|---|---|---|
| Percent of unsecured DOSRI accounts to total DOSRI accounts | **0.02%** | **0.01%** |
| Percent of past due DOSRI accounts to total DOSRI accounts | **0.00%** | **0.00%** |
| Percent of non-accruing DOSRI accounts to total DOSRI accounts | **0.00%** | **0.00%** |

**Includes outstanding unused credit accommodations of ₱221.3 million as of June 30, 2015 and ₱198.7 million as of December 31, 2014.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Details of significant related party transactions of the Group are as follows(transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported covers those with subsidiarieswhere the Parent Company has control, and other related parties whichare under common control of LTG.

| | June 30, 2015 | | |
|---|---|---|---|
| **Accounts** | **Amount/ Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| Receivables from customers | | **₱ 23,974,962** | Revolving credit lines, secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Housing loans to senior officers; Secured and unsecured; Lease option on car plan Unimpaired; With interest rates ranging from 0.50% to 10.00% with maturities ranging from 1 year to 25 years and payment terms ranging from monthly payment to quarterly payments |
| Loan commitments | | **437,090** | Loan commitments |
| Interbank loans receivable | | **134,534** | Money Market Line |
| Due from other banks | | **6,162,261** | With annual rates ranging from 0.01% to 4.55% including time deposits with maturity terms of up to 90 days |
| Accounts receivable | | **142,820** | Advances to finance deficit in pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand |
| Accrued interest receivable | | **24,698** | Interest accrual on receivables from customers |
| Deposit liabilities | | **11,555,269** | With annual rates ranging from 0.02% to 3.00% and maturity terms ranging from 30 days to 1 year |
| Bills payable | | **3,922,400** | 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 other banks | | **149,871** | Clearing accounts funding and settlement of remittances |
| Dividends Receivable | | **135,000** | Cash Dividends declared; payable on or before August 31, 2015 |
| Sales contract receivable | | **342,290** | Purchased property as collateral; unimpaired; Monthly payments for 5 years with 6% interest. |
| Accrued interest payable | | **95,696** | Accrued interest on deposit liabilities and bills |

| | June 30, 2015 | | |
|---|---|---|---|
| **Accounts** | **Amount/ Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| | | | payable |
| Other liabilities | | **200** | Mortgage Redemption Insurance |
| Operating lease | | **202** | Advance rental deposit received for 2 years and 3 mos. |
| Interest income | **₱94,312** | | Interest income on receivables from customers |
| Interest expense | **66,449** | | Interest expense on deposit liabilities and bills payable |
| Rental income | **28,332** | | Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum; Monthly rental income |
| Rent Expense | **14,802** | | Monthly rent payments to related parties with term ranging from 24 to 240 months" |
| Fees and commission expense | **124,648** | | Expense on professional fees on service agreement |
| Other income | **52,018** | | Premiums collected |
| Other expense | **8,420** | | Claims expense, service and referral fees |
| Securities transactions: | | | |
| Purchases | **2,295,594** | | Outright purchases of securities |
| Sales | **393,375** | | Outright sale of securities |
| Trading gains | **9,150** | | Gain from sale of investment securities |
| Loan releases | **12,854,544** | | Loan drawdowns |
| Loan collections | **3,049,565** | | Settlement of loans and interest |
| Net withdrawals | **3,429,842** | | Net withdrawals for the period |

| | December 31, 2014 | | |
|---|---|---|---|
| **Accounts** | **Amount/ Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| Receivables from customers | | **₱14,169,983** | Revolving credit lines, secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Housing loans to senior officers; Secured and unsecured; Lease option on car plan Unimpaired; With interest rates ranging from 0.50% to 10.00% with maturities ranging from 1 year to 25 years and payment terms ranging from monthly payment to quarterly payments; Collateral includes bank deposit hold-out, real estate and chattel mortgages. |
| Loan commitments | | **1,743,512** | Loan commitments |
| Due from other banks | | **1,094,267** | 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 | | **60,727** | Interest accrual on receivables from customers |
| Deposit liabilities | | **14,985,111** | With annual rates ranging from 0.02% to 3.00% and maturity terms ranging from 30 days to 1 year |
| Bills payable | | **1,725,696** | Foreign currency-denominated bills payable with annual interest rates ranging from 0.25% to 2.50% and maturity terms ranging from 30 to 729 days |
| Due to other banks | | **183,430** | Clearing accounts funding settlement of remittances |
| Accrued interest payable | | **28,511** | Accrued interest on deposit liabilities and bills payable |
| Other liabilities | | **36,978** | Charitable donations and liabilities for lease payments |
| Operating lease | | **203** | Advance rental deposit received for 2 years and 3 mos.. |
| Interest income | **₱478,402** | | Interest income on receivables from customers and |

| Accounts | Amount/ Volume | Outstanding Balance | Nature, Terms and Conditions |
|---|---|---|---|
| | | | December 31, 2014 |
| | | | due from other banks, including income earned from partial redemption of VMC convertible notes |
| Interest expense | **222,987** | | Interest expense on deposit liabilities and bills payable |
| Rental income | **60,983** | | Rental income from 3-year lease agreement, with escalation rate of 10.00% per annum; Monthly rental income |
| Rent Expense | **9,653** | | Monthly rent payments to related parties with term ranging from 24 to 240 months |
| Fees and commission expense | **9** | | Expense on professional fees on service agreement |
| Other income | **170** | | Premiums collected |
| Other expense | **4,024** | | Claims expense, service and referral fees |
| Trading gains | **735,385** | | Sale of 161,978,996 common shares in VMC at current market price of P4.50 per share. |
| Gain on sale of convertible notes | **608,433** | | Gain on sale of VMC convertible notes at the minimum bid price of P3.50 per share. |
| Securities transactions: | | | |
| Purchases | **2,113,651** | | Outright purchases of securities |
| Sales | **537,093** | | Outright sale of securities |
| Trading gains | **14,756** | | Gain from sale of investment securities |
| Loan releases | **17,223,817** | | Loan drawdowns |
| Loan collections | **8,672,779** | | Settlement of loans and interest |
| Net deposits for the period | **408,850** | | Net deposits for the period |

The related party transactions shall be settled in cash. There are no provisions for credit losses for the six-months ended June 30, 2015 and December 31, 2014 in relation to amounts due from related parties.

The Group accounts for its investments in Oceanic Holdings BVI (OHBVI) as a subsidiary although the Group holds less than 50.0% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

The compensation of the key management personnel follows:

| | Six Months Ended (In Thousand Pesos) | |
|---|---|---|
| | **June 30, 2015 (Unaudited)** | **June30, 2014 (Unaudited)** |
| Short-term employee benefits | **₱278,147** | **₱187,151** |
| Post-employment benefits | **23,922** | **23,691** |
| | **₱302,069** | **₱210,842** |

Members of the BOD are entitled to a per diem of ₱50,000.- for attendance at each meeting of the Board and of any committees and other non-cash benefit in the form of healthcare plans and insurance.

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

The Parent Company contributed the aforementioned properties into the JV as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Hence, there are no receivables from each party with respect to the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVA. This JVA does not fall as joint venture arrangement under PFRS 11.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱3.7 billion and ₱3.6 billion as of June 30, 2015 and December 31, 2014, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets as of and for the six months ended June 30, 2015 and for the year ended December 31, 2014 follows:

| | **Consolidated (in millions)** | |
|---|---|---|
| | **June 30, 2015** | **December 31, 2014** |
| Investment securities: | | |
| Held for trading | **₱638,515** | **₱738,969** |
| Available-for-sale | **1,649,404** | **1,508,973** |
| Held-to-maturity | **–** | **–** |
| Deposits with other banks | **1,079,876** | **1,280,595** |
| Deposits with PNB | **339,067** | **37,935** |
| Loans and other receivables | **10,035** | **9,145** |
| Total Fund Assets | **₱ 3,716,897** | **₱3,574,767** |
| Due to BIR | **92** | **119** |
| Trust fees payable | **1,213** | **1,119** |
| Total Fund Liabilities | **1,305** | **1,238** |

| | **June 30, 2015 (Unaudited) (Six Months)** | **June 30, 2014 (Unaudited) (Six Months)** |
|---|---|---|
| Interest income | **₱48,697** | **₱35,233** |
| Trading gains | **–** | **–** |
| Dividend income | **644** | **891** |
| Unrealized loss on HFT | **(99,605)** | **63,240** |
| Gains on sale of investment securities | **–** | **28,928** |
| Other Income | **4,450** | **462** |
| **Fund Income** | **₱ (45,814)** | **₱128,754** |
| Trust fees | **₱ 2,317** | **₱1,782** |
| Other expenses | **1,515** | **628** |
| **Fund Expense** | **₱3,832** | **₱2,410** |

As of June 30, 2015 and December 31, 2014, the retirement fund of the Group include 9,008,864 PNB shares of the Parent classified under HFT. Such shares have a market value of ₱621 million and ₱721 million as of June 30, 2015 and December 31, 2014, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officers of TBG.

As of June 30, 2015 and December 31, 2014, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱10.03 million and ₱9.15

million as of June 30, 2015 and December 31, 2014, respectively, and income include interest on deposits with PNB amounting to ₱3.68 million and ₱0.42 million for the six months periods ended June 30, 2015 and 2014, respectively. Deposits with PNB under Prime Savings Account bear annual interest rate of 030% while deposits under PNBSB Power Earner bear annual interest rate of 4.5% and will mature on April 10, 2020. Investments are approved by an authorized fund manager or trust officer of TBG.

## 17. Contingent Liabilities and Other Commitments

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

| | Solo Parent | |
|---|---|---|
| | **June 30, 2015** | **December 31, 2014** |
| Trust department accounts | **₱68,753,800** | **₱65,817,031** |
| Standby letters of credit | **14,160,573** | **11,117,621** |
| Deficiency claims receivable | **21,490,885** | **21,276,212** |
| Credit card lines | **15,560,645** | **13,996,427** |
| Shipping guarantees issued | **10,052** | **32,732** |
| Other credit commitments | **974,377** | **974,377** |
| Inward bills for collection | **440,902** | **675,050** |
| Other contingent accounts | **296,774** | **326,693** |
| Outward bills for collection | **112,647** | **91,333** |
| Confirmed export letters of credit | **83,662** | **490,015** |
| Unused commercial letters of credit | **61,885** | **44,280** |
| Items held as collateral | **33** | **37** |

## 18. Events After Reporting Date

None.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

## SCHEDULE OF AGING OF LOANS RECEIVABLES*
(PSE Requirement per Circular No. 2164-99)
As of June 30, 2015
(In Thousand Pesos)

| | |
|---|---|
| **Current accounts (by maturity)** | |
| Up to 12 months | 130,897,667 |
| over 1 year to 3 years | 34,757,605 |
| over 3 years to 5 years | 37,917,618 |
| over 5 years | 119,865,286 |
| **Past due and items in litigations** | 8,438,496 |
| **Loans Receivables (gross)** | 331,876,672 |
| **Less:** | |
| Unearned and Other deferred income | (1,877,095) |
| Allowance for credit losses | (5,876,991) |
| **Loans Receivables (net)** | 324,122,586 |

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

## SIGNATURES

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

**PHILIPPINE NATIONAL BANK**
Issuer

**REYNALDO A. MACLANG**
President

**NELSON C. REYES**
Executive Vice President & Chief Financial Officer

Date: July 30, 2015

Annex A

## Selected Financial Ratios
## For the Periods Indicated

| | 06/30/2015 | 12/31/2014 |
|---|---|---|
| Current Ratio | 57.9% | 64.7% |
| Liquid assets to total assets-net | 32.1% | 34.1% |
| Liquid assets to Liquid Liabilities | 43.4% | 45.3% |
| Debt to Equity | 527.7% | 531.0% |
| Assets to Equity | 627.7% | 631.0% |
| Book value per share | 79.54 [2/] | 74.77 |

| | 06/30/2015 | 06/30/2014 |
|---|---|---|
| Interest Coverage | 327.2% | 327.6% |
| Profitability | | |
| Return on average equity | 7.2% [1/] | 7.5% |
| Return on average assets | 1.1% | 1.1% |
| Net interest margin | 3.3% | 3.1% |
| Cost efficiency ratio | 61.8% | 64.4% |
| Basic Earnings per share | 2.80 | 2.84 |

[1/] ROE without goodwill –8.3%

[2/] Book value per share without goodwill - ₱ 68.84