# ANNUAL REPORT 2014

PHILIPPINE BUSINESSBANK
a savings bank
Making Things Happen...Today!

# GROWING FOR YOU

# OUR MISSION

The basis for the Bank's growth shall be our commitment for higher standards everyday, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction - for our customers, our shareholders, our associates and our communities.

# OUR VISION

By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams.

## CONTENTS



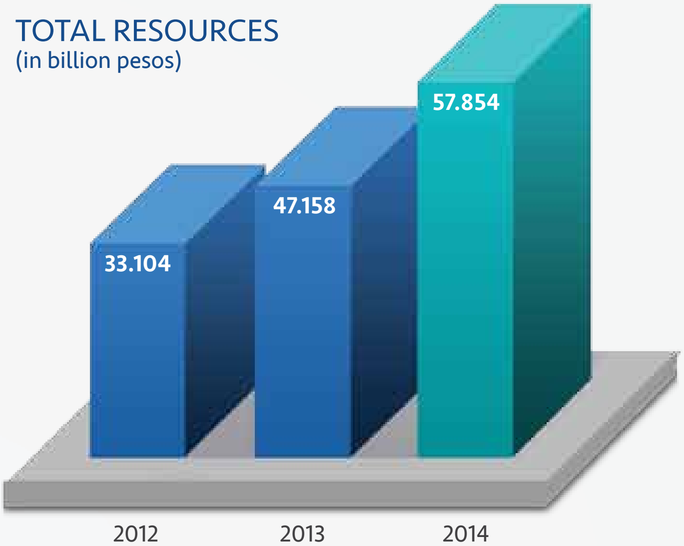
# ABOUT US

Philippine Business Bank (PBB) began operations on February 12, 1997, largely catering to the needs of small and medium scale businesses. The Bank's significant achievement in serving the SME market laid the foundation of its phenomenal growth, establishing 15 branches in just 2 years from start of operations.

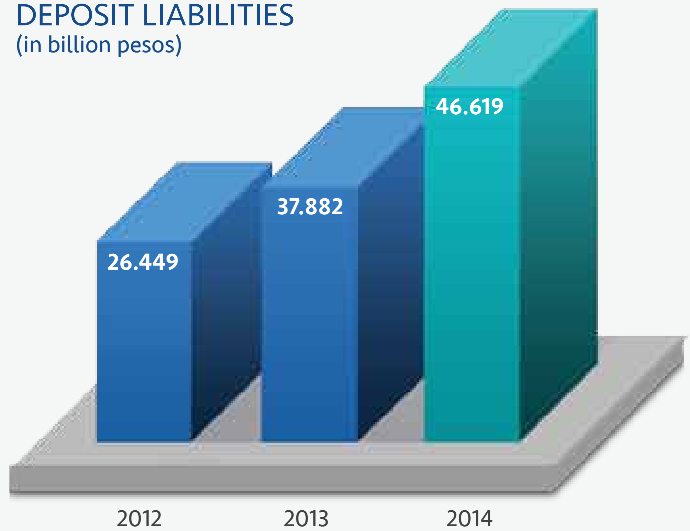
Today, PBB has grown with a network of branches nationwide, offering a range of innovative banking services. Building on a solid reputation and leveraging on strategic plans, PBB is setting the wheels of progress in high gear.

# OUR FINANCIAL HIGHLIGHTS

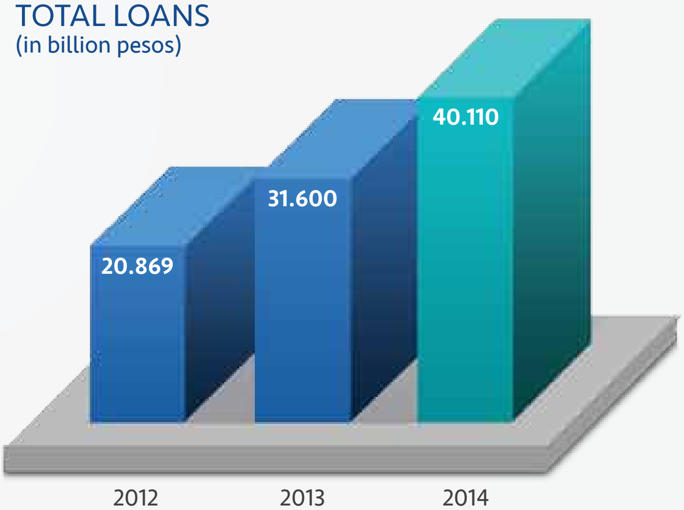
## TOTAL RESOURCES
(in billion pesos)



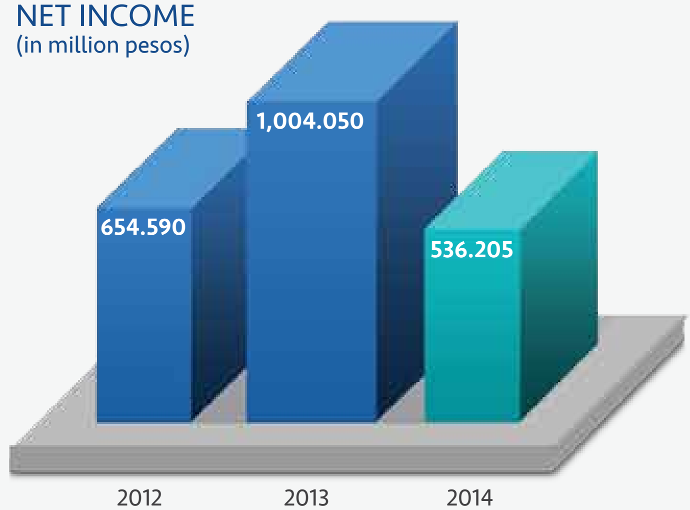

## DEPOSIT LIABILITIES
(in billion pesos)



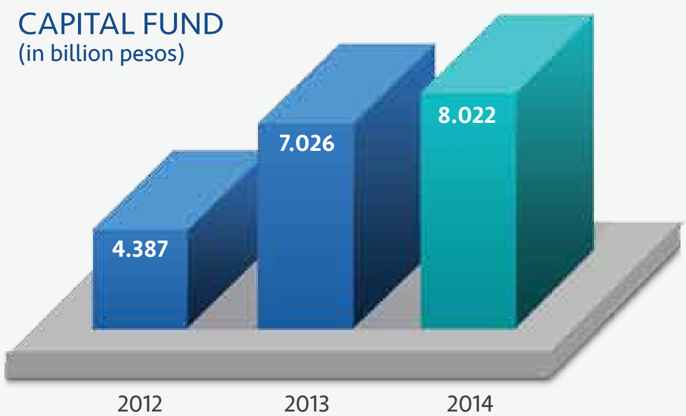

## TOTAL LOANS
(in billion pesos)




## NET INCOME
(in million pesos)




## CAPITAL FUND
(in billion pesos)



# LETTER TO STOCKHOLDERS

ALFREDO M. YAO
Chairman Emeritus

**Dear Shareholders:**

As another year ends and a new year starts, we reflect on how quickly time has passed, especially with the hard work undertaken to reach the goals that each one of us; individuals, businesses and organizations, had set for themselves.

## GLOBAL TRENDS

Global economic sentiments have gradually improved over the last twelve months and the Philippine economy has been growing steadily over decades and the International Monetary Fund in 2014 reported it as the 39th largest economy in the world.

Like other emerging markets, Philippine financial markets experienced large volatilities as investors respond to the tapering of the US stimulus program. Despite this, the Philippines emerged as the most resilient to external shocks among 21 emerging markets ranked by a US-based think-tank.

The lethargy of the global growth in 2014 is expected to continue in 2015, but we will continue to practice prudence and discipline in managing our business. We will stay focused on delivering quality growth, while remaining watchful over emerging risks.

## PROFITABLE GROWTH OVER THE LONG TERM

The past year has been a fulfilling and successful 12 months for Philippine Business Bank. We feel very proud of our achievements taking our financial institution to a new level. PBB has met its re-vitalized mission to commit for higher standards, in everything we do through enthusiastic execution and teamwork.

In the last 10 years we more than doubled our revenue. I would like to take this opportunity to share with you some very important strengths of our Bank's balance sheet as of December 2014:

- Total resources grew 23% to Php 57.854 billion backed by strong loan volume.
- Client deposits rose 23% for the year to reach Php 46.619 billion.
- Total loans reached Php 40.7 billion, which is a 28% increment.
- Net income reached Php 536.205 million.
- Capital fund increased 14% to Php 8.022 billion
- The Group's capital position remained well above the BSP's minimum requirements with Capital Adequacy Ratio Tier 1 (CAR) and Total CAR at 19.2% and 20.1% respectively as of 31 December 2014.

Thank you for your support during 2014, we only exist because of you and we look forward to 2015 in anticipation of continued success in helping you to achieve your personal and business goals.

We are fortunate to have a great team and I would like to thank them all for their dedication, skill and commitment in working towards our vision to be the Philippine's bank of choice. When I meet with our clients, they always comment on our people and how terrific they are.

We make a significant commitment to employee training. Our employees have a feeling of success, an increased awareness of the importance of a job well done, and a heightened level of pride and independence.

## REBRAND AND AWARDS

This year, PBB has re-branded itself with a new signage and a look more descriptive of its mission and purpose. It truly is evolutionary with the intention to differentiate our service in the minds of our target market – the SMEs. The rebranding becomes a crucial step for the business to be taken more seriously as we expand into more aggressive markets.

2014 is a very good "technology" year for PBB. This year PBB received two international technology awards that epitomize excellence and innovation in the category of financial technology.

Earlier this year, PBB was a recipient of a prestigious award from the Global Banking and Finance Review, a London based online magazine for "Best Banking Technology Philippines 2014." Global Banking and Finance Review is an invaluable online resource for anyone working in the financial sector. GBFR keeps its readers up to date with the latest international news and analysis on banking and business, as well as important developments and conversations on the tech side.

In addition, Philippine Business Bank is one of the four Filipino banks to have been awarded by the Asian Banking and Finance during the Wholesale Banking Awards held at the Marina Bay Sands in Singapore last July 2014.

Nominations sent by top Asian banks were judged by representatives from Deloitte, Ernst and Young, PwC and KPMG. This is the second consecutive year that PBB has secured the award for **THE PHILIPPINES DOMESTIC TECHNOLOGY AND OPERATIONS BANK OF THE YEAR.**

Another achievement the Bank is proud of is PBB's Technology Strategy for Future Proofing its Enterprise Data Center was cited among the FIIA Top 30 Technology Initiatives to look out for at the IDC Asian Financial Services Congress 2014. The deployment of the cutting edge technology has once again captivated the panel of independent judges during the IDC Asian Financial Services Congress 2014 that was held at

FRANCIS T. LEE
Chairman

# LETTER TO STOCKHOLDERS

the Marina Bay Sands, Singapore last February 27-28, 2014. This marks the 3rd time that PBB was cited for its technology initiative and was the only Philippine bank among the Financial Insights Innovation Awards top 30 technology initiatives list.

These accomplishments demonstrate our bank's top notch operations, standards and services. It is also a testament to PBB's application of leading industry solutions which support the needs of our customers and clients.

## JOURNEY TO THE NEXT LEVEL

Our journey is about improving lives, creating jobs, opening doors and meeting needs—for millions of people in thousands of communities nationwide. It is about working with them and help them grow their businesses.

PBB helps strengthen communities and provide for community well-being by empowering entrepreneurs. We also provide aid and relief during a disaster, by investing in education and by respecting human rights. We have made a commitment to give back to communities the same amount of trust they have extended to us.

This, in a nutshell, is our imperative: To grow our business by being a company that steps up, reaches out and helps communities thrive.

## QUALITY AND COMPLIANCE

Ensuring the quality of our products and services has always been at the core of our business and is directly linked to our success. We ensure consistent quality through strong governance and through compliance to applicable regulations and standards.

We monitor compliance with our standards to ensure our products and services meet our own requirements as well as client expectations. We also stay current with new financial regulations, industry best practices and marketplace conditions and engage with standard-setting and industry organizations.

## OUTLOOK

With the ASEAN Economic Community taking shape in 2015, more growth opportunities are anticipated for banks and their customers. Our overall outlook remains optimistic, given the generally positive macroeconomic environment and the underlying growth prospects in our key markets. We will grow prudently, make the best use of our resources, work comfortably within regulatory obligations, and continue to invest in building our network and capabilities.

In closing, we have made solid progress over the past years, with 2014, in particular, coming in very strong. We have lowered our cost base, gained market share, and delivered superior financial performance. Philippine Business Bank clearly is on track. Now, our sights are firmly set on the future in terms of capturing the immense transformational growth opportunities and delivering superior stockholder value over the long-term. At PBB, we make things happen... today!

Sincerely,

Alfredo M. Yao

# OUR OPERATIONAL HIGHLIGHTS

PETER N. YAP
Vice Chairman

## ACCOUNT MANAGEMENT GROUP

PBB has access to a wide range of finance sources from Leasing, Commercial Lending and Consumer finance particularly the SME Loan.

Despite another challenging year marked by a low interest rate environment and restrictions on retail and corporate loans, our lending business delivered a strong set of results in 2014. Total loans stood at Php 40.11 billion which is up by 26.9 percent from last year's Php 31.6 billion.

For our corporate customers, we remain focused on seeking opportunities to provide them with the best financial products and services to support their various stages of growth. We remain the leading bank of choice for SME businesses. As envisioned by the Chairman Emeritus, Amb. Alfredo M. Yao, PBB has made conscious effort to focus on the SMEs which runs parallel with the bank's strategy of expanding and opening more branches nationwide.

Support for the financing of projects implemented for SMEs is the key policy objective of PBB, as the SME sector represents the engine of growth and innovation. In our partnership with US AID – PBB ensures that the benefits of providing loans on favourable terms reach eligible hands.

Another platform PBB took on is to partner with the Philippine Franchise Association – a non-stock, non-profit organization, is the voluntary self-regulating governing body for franchising in the Philippines. It was formed to organize the growing number of franchise industry players, both home-grown and foreign.

The Bank is committed to support the created programs of PFA that will open opportunities for the expansion of Philippine franchises domestically and overseas by assisting small and medium enterprises by granting loan for the franchisees and franchisors' working capital. The support will not just end with existing franchise brands but including the development of incubation centers for new comers, where highly franchiseable concepts can be introduced to the mainstream market.

We are hopeful that PBB's partnership with the US AID and the PFA to address the needs of SMEs in developing countries like the Philippines would have a positive impact on the lives of the people and be instrumental in fulfilling its mission. PBB would like to be used as a tool for the country's economic development through the creation of thousands of businesses and millions of jobs.

## RISK MANAGEMENT

Risk Management function in the banking industry has come a long way and has evolved significantly in current times. Over the years, many practices have been exposed in financial institutions that point to the importance of risk management and controls. In view of the high risk in its lending activities, it is inevitable for PBB to have effective yet reliable risk management. With the increasing importance of liquidity management in the financial industry, PBB continues to resolve its funding issues as to ensure the continuity of PBB in upholding its responsibilities as the premier financier to the national development. Throughout the years, the notion of risk has moved beyond the traditional measures like credit, market and operational to corporate governance risk, fraud risk, accounting malpractices, reputation risk, environmental risk, social risk and systemic risk. As such, risk awareness should not solely be the responsibility of the Group Risk Management only but to become a culture that needs to be embedded by all functions in PBB.

## HUMAN RESOURCES

Human capital is amongst the many important factors significant to economic growth of a country as a whole and organization in particular. Investment in human capital development is a key pre-requisite to achieving the status of progressive institution. Thus, although human capital is not tangible, it will always be the most valuable asset of an organization. In view of carrying the unique mandated roles of a savings bank, PBB has acknowledged that effective personnel not only have the requisite technical and core knowledge, but also proven experience in applying the skills in the respective field. Due to this condition, PBB continues to focus on its previous initiative that is succession planning. Apart from succession planning, the Bank will continue to inject external talents with valuable experience and insight that will close the gaps in required competencies.

Our headcount grew to 1,063, largely due to increase in number of branch network, reflecting our strategy of deepening our presence and supporting business growth in these core markets.

ROLANDO R. AVANTE
President & CEO

# OUR OPERATIONAL HIGHLIGHTS

## *TRAINING*

Employee development remained a key focus in 2014. Training is one of the most important avenues through which we help our employees remain relevant in their fields of expertise. Nurturing our talent through continuous training and job exposure is essential. For us, it is important that our people not only have the right skill sets, but also the right mindset and values, to build and to uphold our customers' trust.

We launched the Leadership 101, Situational Leadership and the BOTP – Basic Supervision, which impress on our officers the importance of agility in managing complexities of our people.

As part of investing in our people, we are dedicated to developing a strong core of financial specialists and industry leaders. We encourage employees to complete the Core Credit Course and the Credit Analysis and Writing - accredited certificate programs which are run in collaboration with academic institutions and other professional bodies. Our employees also have access to a comprehensive range of technical and soft skills training programs covering topics such as branch banking, credit, risk management, legal documentation, sales marketing, customer service and personal development. These programs are designed to equip employees with the tools to excel in their fields.

### Internal

| | Seminar Title | Total number of employees attended for the year 2014 |
|---|---|---|
| 1 | AMLA Seminar | 424 |
| 2 | Basic Business Communication | 25 |
| 3 | BOTP - Basic Supervision | 20 |
| 4 | Branch Based Selling | 116 |
| 5 | CIF System Seminar | 365 |
| 6 | Core Credit Course: | 30 |
| 7 | Corporate Governance Seminar for Board Members and Senior Officers | 29 |
| 8 | Counterfeit Detection Seminar | 102 |
| 9 | Credit Analysis and Writing | 37 |
| 10 | Fraud & Risk Awareness Seminar | 132 |
| 11 | Leadership 101 | 48 |
| 12 | Situational Leadership | 30 |
| 13 | Legal Documentation | 178 |
| 14 | Managing Customer Service | 58 |
| 15 | Professional Image Seminar | 81 |
| 16 | Renminbi Seminar | 50 |
| 17 | Selling Bank Services Seminar | 97 |
| 18 | Seminar on Refining and Executing Scripts for Branches | 173 |
| 19 | Signature Verification | 85 |
| 20 | SLA Seminar- Workshop | 109 |

## External

| SN | SEMINAR TITLE | DATE(S) | Sponsoring Organization | No. Of Participants |
|---|---|---|---|---|
| 1 | MEC Free NETCamp Seminar | | MEC Nectworks Corporation | 1 |
| 2 | Interest Rate Swaps | | BAIPHIL | 2 |
| 3 | Currency Swaps & Bootstrapping | | BAIPHIL | 2 |
| 4 | International Trade Settlement | | BAIPHIL | 3 |
| 5 | Positive Discipline from Problem Employees to High Achievers | | BAIPHIL | 1 |
| 6 | Risk Avoiding Double Encumbrances | | BAIPHIL | 1 |
| 7 | Network and Communication | | FORTINET PHILIPPINES | 1 |
| 8 | NetCamp – Virtualization | | MEC Nectworks Corporation | 1 |
| 9 | Cisco 1 | January 25 – March 29, 2014 | Mapua Information Technology Center | 1 |
| 10 | Introduction to Key Risk Indicators (KRI) | | BAIPHIL | 1 |
| 11 | ASEAN Corporate Governance Scorecard Workshop for Publicly Listed Companies | | Institute of Corporate Directors | 2 |
| 12 | Capital Markets Taxation | | BAIPHIL | 2 |
| 13 | Risk Management Trends in 2014 | | BAIPHIL | 1 |
| 14 | 2014 Lean Leadership Manila Summit | | Kairos Management Technologies | 1 |
| 15 | Crimes Without Borders | March 18-19, 2014 | Goldcrest Comminucations Inc. | 2 |
| 16 | Comprehensive Review & Training (CREASAT) for Licensure Exam | April 26 – June 8, 2014 | Phil. Association of Realty Appraiser (Bacolod Chapter) | 2 |
| 17 | Vmware Vsphere Basic Administration Trainign Course | May 13 – 14, 2014 | MSI-ECS Phils, Inc. | 3 |
| 18 | Dare to Compare Series:Transform your IT Economics through IBM X6 event | | IBM | 1 |
| 19 | A Workshop on the Fundamentals of Variable Pay | | Towers Watson Philippines, Inc. | 1 |
| 20 | Seminar on Basel III | | ACI Philippines | 4 |
| 21 | Seminar on IFRS 9 | | ACI Philippines | 3 |
| 22 | Wells Fargo's Evolving AML Programs | | Wells Fargo Bank, National Association | 3 |
| 23 | Basic Non-Life Insurance Seminar | September 6, 13, 20, and 27, 2014 | MAA General Assusrance Phils., Inc. | 1 |
| 24 | Property Appraisal Seminar | | Credit Management Association of the Philippines Inc. | 3 |
| 25 | Cisco 2 | July – September 2014 | Mapua Information Technology Center | 1 |
| 26 | Cisco 1 | July 19 – September 27, 2014 | Mapua Information Technology Center | 2 |
| 27 | Office Files and Records Management | | Business Maker Academy Inc. | 1 |
| 28 | National Wellness Summit | | People Managment Association of the Phils. | 1 |
| 29 | Pokayoke: How to work w/o Mistakes in HR | | Kairos Management Technologies | 2 |
| 30 | Avaya Experience Tour 2014 | | Avaya | 1 |

# OUR OPERATIONAL HIGHLIGHTS

| | | | | |
|---|---|---|---|---|
| 31 | CCNA Bootcamp w/ Exam (Fast Track) – KB1038 | June 1 – July 13, 2014 | Computer Networking Career and Training Center Inc. | 1 |
| 32 | Advanced Enterprise and Operational Risk Management Program | | BAIPHIL | 2 |
| 33 | Advanced Credit Risk Management Program | | BAIPHIL | 3 |
| 34 | Risk Management Seminar | | Money Market Association of the Philippines | 1 |
| 35 | Web Application Vulnerability Assessment & Penetration Testing | Auguts 13 – 15, 2014 | BITSHIELD Security Consulting inc. | 2 |
| 36 | Certified Security Professional Review Program | August 18 – 22, 2014 | Philippine Society of Industrial Security Inc. | 1 |
| 37 | Aligning with BSP's IT Risk Management Standards: Best Practice IT Audit/Assusrance Programs | March 1, 8, 15, & 22, 2014 | BAIPHIL | 1 |
| 38 | Global Payment Seminar | | Wells Fargo Bank, National Association | 1 |
| 39 | Credit and Land Titles as Access to Credit | Sept. 25- 26 , 2014 | Chamber of Thrift Bank | 4 |
| 40 | Credit Risk Management | | BAIPHIL | 1 |
| 41 | Fortinet Security 360 The New Order Of Security | Sept. 26,2014 | FORTINET PHILIPPINES | 1 |
| 42 | Audit Techniques and Fraud Prevention | | PICPA | 4 |
| 43 | Forum on Enterprise Risk Management- Black Swans | | Financial Executive Institute of the Philippines | 2 |
| 44 | Credit Risk Management | | BAIPHIL | 4 |
| 45 | 2014 Global Payment Seminar | | Wells Fargo Bank, National Association | 1 |
| 46 | Supervisory Expectations on ICAAP Implementation | Sept 19, 2014 | BAIPHIL | 4 |
| 47 | Concentration Risk and Related Party Transaction Seminar | | BAIPHIL | 3 |
| 48 | Advanced Credit Risk Management Program | | BAIPHIL | 3 |
| 49 | PACKET SESSION:FSI | | FORTINET PHILIPPINES | 1 |
| 50 | Employee Promotions & Career Planning | June 6-7 2014 | Business Maker Academy Inc. | 1 |
| 51 | Seminar on Basel III | | ACI Philippines | 4 |
| 52 | Seminar on IFRS 9 | | ACI Philippines | 3 |
| 53 | Aligning with BSP's IT Risk Management Standards: Best Practice IT Audit/Assurance Programs | March 1,8,15,22, 2014 | BAIPHIL | 1 |
| 54 | Positive Discipline from Problem Employees to High Achievers | | Kairos Management Technologies | 1 |
| 55 | Web Application Vulnerability Assessment & Penetration Testing | | BITSHIELD Security Consulting inc. | 2 |
| 56 | The Philippine Pension and Investment Summit | Oct. 20-21, 2014 | Trust Officers Association of the Phils. | 6 |
| 57 | HR Readiness Towards ASEAN Integration | | People Managment Association of the Phils. | 1 |
| 58 | IBM Connect Comes to You 2014 | | IBM | 1 |

## *WORK ENVIRONMENT*

Core to this is our commitment to provide all employees with a safe and professional work environment where they can reach their full potential through opportunities based on merit. Ours is a workplace where everyone is required to treat their colleagues fairly and with respect at all times.

PBB has a very flexible and management, high morale in the workplace. There is good accessibility to senior management and a good work/life balance. The opportunities at PBB make it one of the best places to grow from within. It gives you the tools to make your career grow.

## BRANCH BANKING

In an industry as competitive as ours, where many products are highly commoditized, we can be a bank apart only if the customer is front and center of all that we do.

To become a bank renowned for our distinctive brand of Filipino Service, we began to systematically train our people on defined service standards that would guide our actions going forward. This is in order that we can be known as a bank that is respectful, easy to deal with, and dependable. The standards are the building blocks of our service strategy and they define all our touchpoints – from how we interact with our customers on the frontline to how we design our branches, processes and systems from a customer point of view.

The official launch of our service standards laid the foundation for a culture of customer service par excellence at PBB. Today, over 75 percent of our people have been trained in these standards and are equipped to make our customers feel valued, respected and understood.

We continued to enhance the design and layout of our branches to improve customer experience.

We have significantly increased our presence in key strategic locations in the countryside where SMEs are operating. We are committed to meeting the growing needs of our clients and one way of ensuring that we are available to serve them is by putting up distribution centers, via our branch network, in areas where they operate. The Bank's results in 2014 show that our strategy works and we will work on building on the successes from last year. PBB has a significant number of approved but unutilized branch licenses for 2014, due in part to delays in building construction in sites already chosen and the lack of strategic locations, which is a key success factor in the viability and profitability of a branch's operations. The bank expects to fast track the use of such licenses next year as we seek to strengthen our presence in SME- rich business centers both in Metro Manila and in leading provincial cities nationwide.

We value the trust and confidence that our customers place in us, and are fully committed to helping them achieve their aspirations by providing comprehensive and innovative financial services that meet their needs.

## TREASURY

Despite challenging conditions in the Philippine stock market in 2014, our Treasury Division achieved total investment of Php 5.2 billion and US$ 41 million in 2014. This was led by strong business performance across nationwide boundaries, as well as across various products covering foreign exchange, fixed income, credit, equity and derivatives.

We continued to focus our efforts on delivering customer service excellence, providing in-depth understanding of Asian markets and rolling out innovative products that meet our customers' needs.

The financial market landscape continued to evolve in response to domestic regulatory developments. We pro-actively enhanced our systems to achieve a front-to-back Treasury system for all Treasury centers, which strengthened our product competitiveness. We revamped operational processes to improve capital efficiency and ensure regulatory compliance. We remain strongly committed to sustaining business momentum with infrastructure investments and process improvements.

## TRUST

In addition to providing conventional banking services PBB's Trust Group uses their specialized knowledge effectively to provide a broad range of financial services, via such businesses as the trust and concurrent businesses, to accommodate the need for more diversified and sophisticated financial and asset management services.

Amid the ongoing rapid pace of change in the environment that financial industry work in, PBB's Trust Group is further strengthening their management base by enhancing efficiency and streamlining their business operations to attain sound development and thus make a positive contribution to the Bank.

Assets held in Trust stood at Php 3.812 billion as of December 31, 2014, while the group registered an income of P16.477 million which posted an annual growth of 85 percent from Php 8.907 million reported during the same period last year.

Trust portfolio comprised mainly of Investment Management Accounts (IMA) that accounted 89.91 percent of the total Trust portfolio, Trust and Other Fiduciary Accounts (TOFA) which contributed 7.38 percent and Unit Investment Trust Fund (UITF) which posted 2.70 percent of the total Trust Assets.

# OUR RISK AND CAPITAL MANAGEMENT

To generate acceptable returns to its shareholders' capital, PBB understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by PBB as the probability that some event will cause an undesirable outcome on the financial health of the business and/or other business goals. PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity, and operational risks.

The Board of Directors sets PBB's management tone through the Risk Oversight Committee (ROC) by specifying the parameters, sets risk tolerances and appetite by which business risks are to be taken and by allocating the appropriate capital for absorbing potential losses from such risks. The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned with best practices on risk management.

In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

## ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

## RISK MANAGEMENT MILESTONES FOR 2014

The Bank continually advances on its risk management techniques and marry this into the overall strategic business objectives to support the growth objectives of the bank.

PBB has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, hardened, implemented, and disseminated across all units of the Bank.

## CREDIT RISKS

PBB takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to PBB by failing to discharge an obligation. Credit exposures arise principally in loans and advances, debt securities and other bills.

The Bank boasts of its knowledge of the SME segment as one of its strengths. Hence, the Bank puts acknowledgment in its qualitative assessment of its loan portfolio in addition to the quantitative aspects of credit risk assessment. The Bank has a very thorough pre-approval screening of loan accounts and has taken the initiative to implement an internal credit scoring model to measure and monitor credit risks for its covered portfolio. This is complemented by a regular credit review process as well as monthly portfolio risk evaluation to identify risk trends and credit risk red flags. The Bank sets aside adequate loss provisions to cover for its credit risks consistent with BSP regulations and following accounting standards.

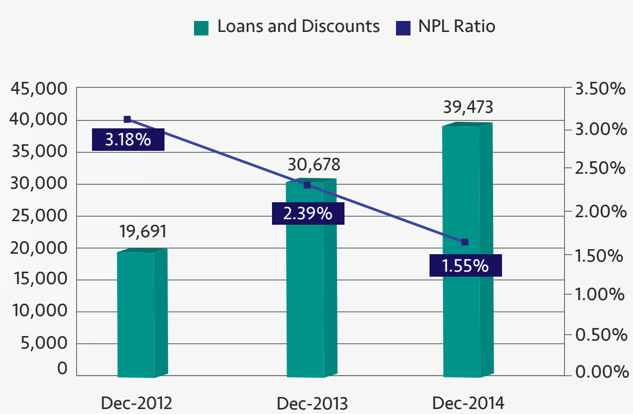
PBB assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. PBB has internal credit risk rating system that measure the borrower's credit risk based on quantitative and qualitative factors. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. PBB regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary

The PBB structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

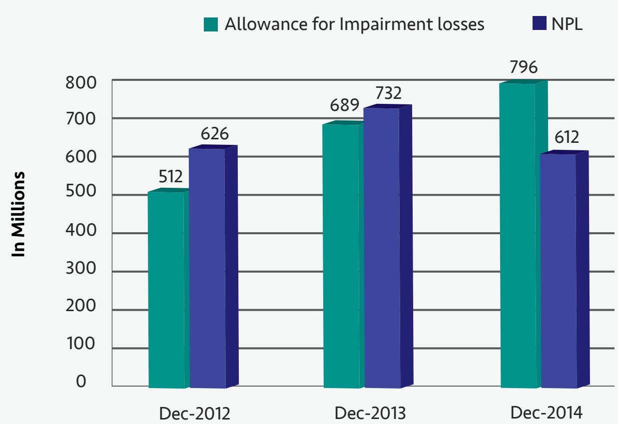
When entering into new markets or new industries, the PBB focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

The following charts show the Bank's Loans and Discounts selected credit risk profile for the years ending December 2014, December 2013, and December 2012 (amounts in Million Pesos).

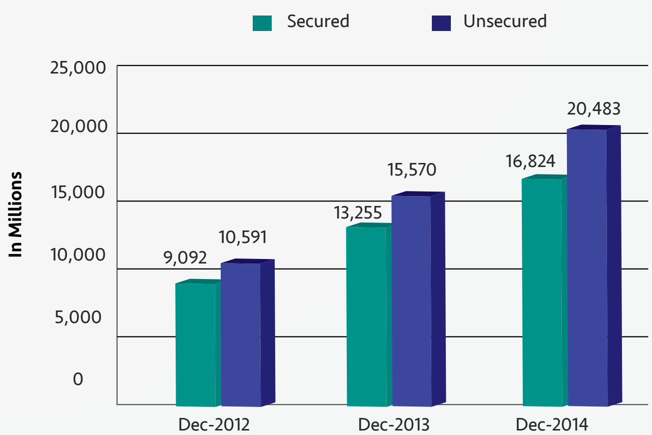
**Loans & Discounts vs NPL Ratio**



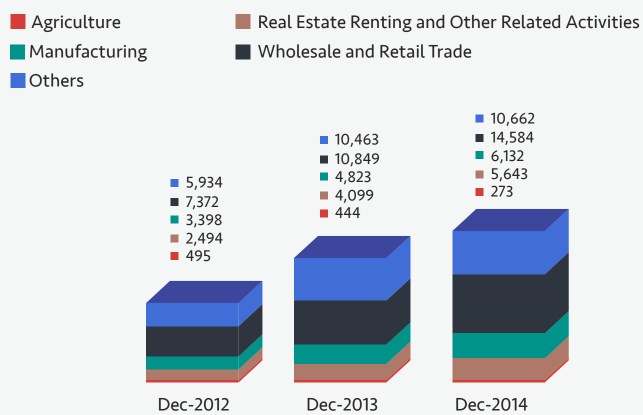

**NPL and Allowances for Losses**




**Loans & Discounts as to Security**




**Credit Concentration by Industry**




In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank has initiated a bank-wide credit process streamlining program in 2014 to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification.

# OUR RISK AND CAPITAL MANAGEMENT

## MARKET AND LIQUIDITY RISKS

For 2014, the Bank has an automated system for the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

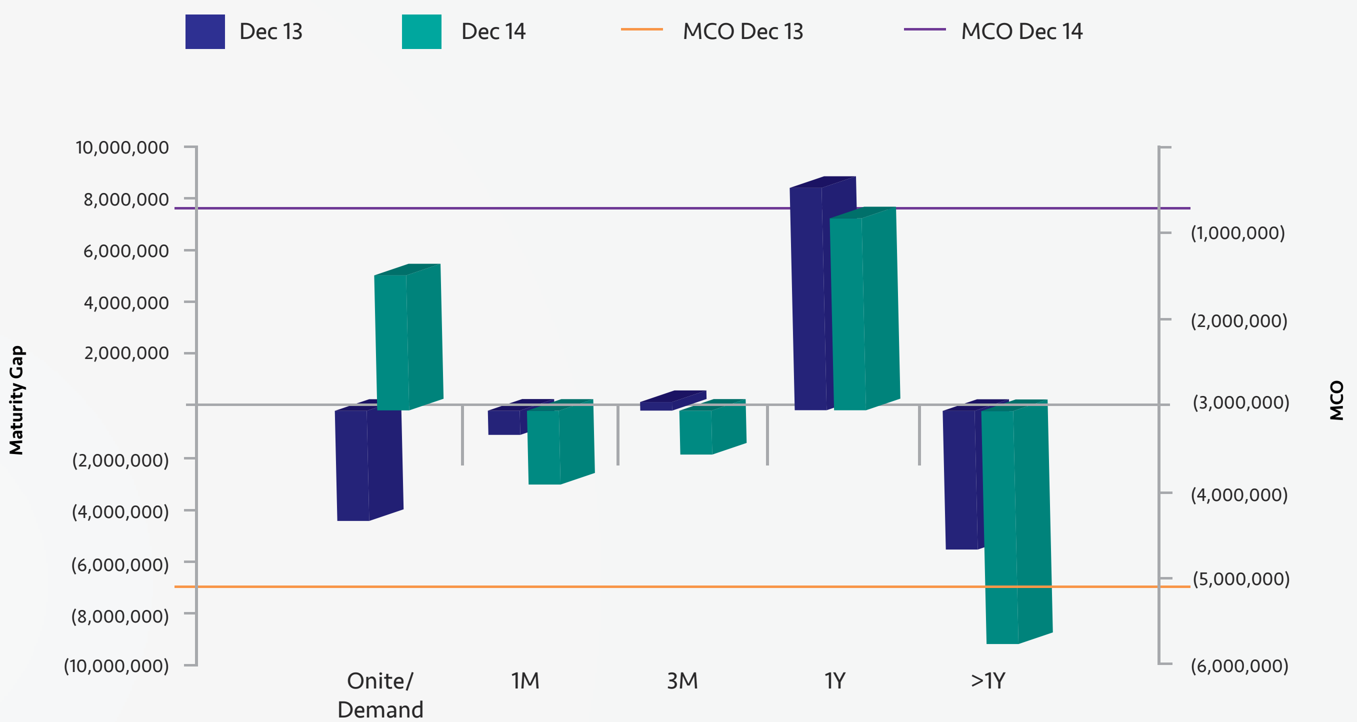
The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.

PBB stands by its reputation in high regard as evidenced by the faithful performance of its commitments and by upholding the trust bestowed upon it by its clients. This, and the management of potential losses related to funding and trading liquidity are the reasons the Bank seriously manages liquidity risks. It has a functional Asset and Liability Committee which oversees the regular liquidity management of the Bank through the Treasury Services Group and with oversight from the Board through the Risk Oversight Committee. Regular liquidity gap reports and maximum cumulative outflow monitoring is done on management level. The Bank also has a comprehensive Liquidity Contingency Plan which identifies specific fund sources during potential liquidity crunch scenarios. Stress testing is also done regularly to complement its liquidity risk measurement tools.

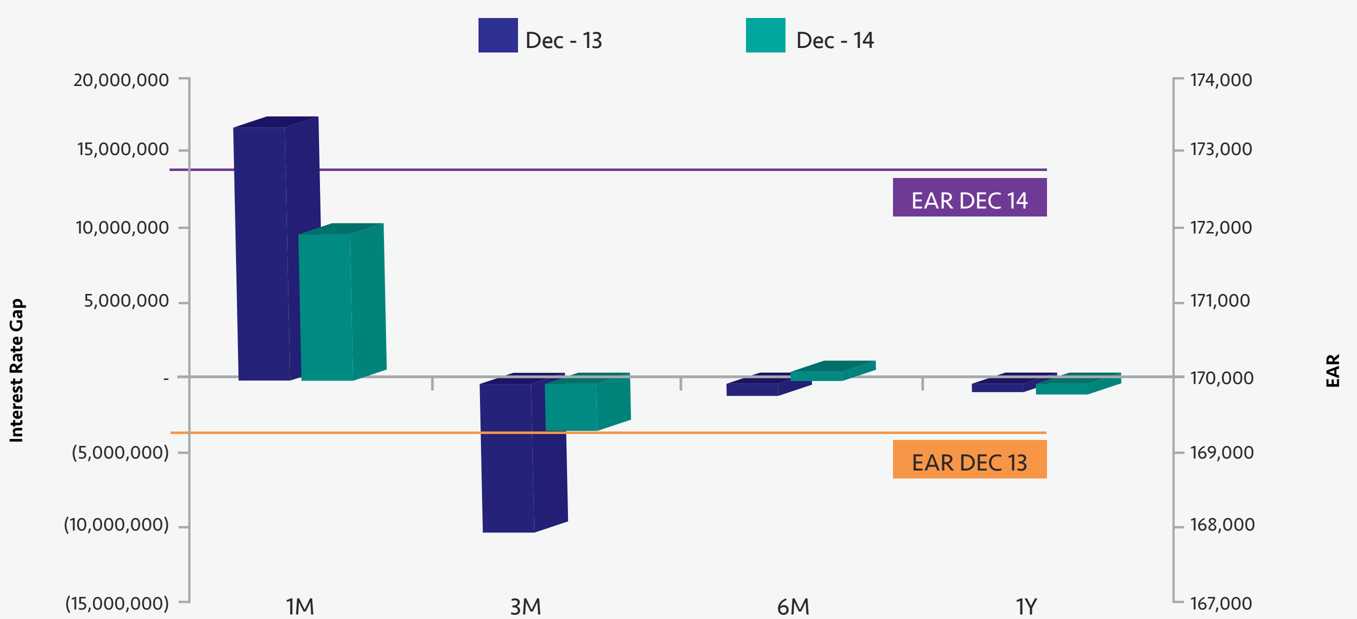
| Market Risk | | | |
|---|---|---|---|
| Amounts in Million Pesos | | | |
| | Dec - 12 | Dec - 13 | Dec- 14 |
| Investment Securities | | | |
| HFT and AFS | 5,785 | 8,826 | 1,885 |
| VaR | 351 | 213 | 193 |
| Sensitivity to Interest Rate | | | |
| +100 bps | (655) | (1,094) | (191) |
| +300 bps | (1,964) | (3,281) | (573) |
| +500 bps | (3,274) | (5,468) | (995) |

PBB is also very keen in its interest rate gap position. Management uses repricing gap reports, earning-at-risk (EAR), and sensitivity analysis to lookout for the potential effect of a rising or a falling interest rate scenario to the Bank's interest income objective. Management monitors compliance to set EAR limits regularly to ensure that interest rate risks sought are within the bounds set by the Board.

**Maximum Cumulative Outflow (MCO)**
**(In PHP Thousands)**




**Earnings - at - Risk**
**(In PHP Thousands)**



# OUR RISK AND CAPITAL MANAGEMENT

## OPERATIONAL, LEGAL, AND OTHER RISKS

The Bank integrates into its risk management system the management of its operational and other risks. These risks are the sum total of all risks faced by the Bank other than credit, market, and liquidity risks.

The Bank has developed an internal risk assessment methodology and operational risk data collection linked to the management of its operational risks. It also has a risk control system to reduce risk, manage operational disruption, ensure business continuity, reduce overall cost, and improve service efficiency. The Bank also has a compliance system to ensure adherence to local and global regulatory standards as well as internal policies. PBB also promotes a corporate risk culture and sensitivity to potential losses through regular trainings and ongoing bank wide risk awareness program.

As part of its operational risk management program, the Bank has completed its bank-wide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management thrust of the Bank. With this is also an enterprise-wide training on risk awareness. This will ensure appreciation and measurement of the key risks of each unique business and support units of the Bank and how these relate to the over-all objectives and strategies.

The Bank values the confidentiality, availability, and integrity of all the information it holds. This includes the protection of client information to the full extent allowable under the law as well as the utmost protection of its clients utilizing information technology systems. To uphold this, the Bank regularly updates its information security policies and make sure that it is properly implemented and disseminated across all units of the Bank.

## CAPITAL MANAGEMENT

Cognizant of its exposure to risks, PBB understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business, and to satisfy regulatory requirements. PBB further understands that its performance, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

PBB manages its capital following the framework of Basel Committee on Banking Supervision and its implementation in the Philippines by the BSP. The BSP requires each bank to keep its Capital Adequacy Ratio (CAR) – the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, PBB currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and unrealized fair value losses on available-for-sale securities. Tier 2 capital includes unsecured subordinated debt, net unrealized fair value gains on available-for-sale investments, and general loan loss provisions for BSP reporting purposes.

PBB has fully complied with the CAR requirement of the BSP. The Bank ensures that it operates within the regulatory capital allowable under existing BSP regulations. For the year 2014, PBB remains very strong in terms of regulatory capital requirement. Its capital adequacy ratio (CAR) as of December 2014, as REPORTED, stands at 20.1% compared to the 10.0% minimum set by the BSP. The corresponding Net Tier 1 ratio is also very strong at 19.2%.

| Amounts in Million Pesos | 2014 | 2013 | 2012 |
|---|---|---|---|
| Capital | | | |
| Tier 1 Capital | 8,678 | 8,154 | 4,080 |
| Tier 1 Deductions | (298) | (257) | (226) |
| Net Tier 1 Capital | 8,380 | 7,987 | 3,854 |
| Tier 2 Capital | 411 | 284 | 180 |
| **TOTAL QUALIFYING CAPITAL** | **8,791** | **8,181** | **4,034** |
| Risk Weighted Assets | | | |
| Credit | 40,667 | 30,794 | 20,673 |
| Market | 139 | 844 | 0 |
| Operational | 2,893 | 1,807 | 717 |
| **TOTAL RISK WEIGHTED ASSETS** | **43,699** | **33,445** | **21,390** |
| **CAPITAL ADEQUACY RATIO** | **20.1%** | **24.5%** | **18.9%** |
| **NET TIER 1 RATIO** | **19.2%** | **23.6%** | **18.0%** |

# OUR BOARD OF DIRECTORS

ALFREDO M. YAO
Chairman Emeritus

FRANCIS T. LEE
Chairman

Executive Committee
Manpower, Compensation and Remuneration Committee
Trust Committee
Asset and Liability Committee
Credit Committee
Bid Committee
Remedial and Special Assets Committee
Anti-Money Laundering Committee

## PETER N. YAP
Vice Chairman

Executive Committee
Manpower, Compensation and Remuneration Committee
Management Committee
Asset and Liability Committee
Credit Committee
Committee on Employee Discipline

## ROLANDO R. AVANTE
President & CEO

Executive Committee
Manpower, Compensation and Remuneration Committee
Trust Committee
Asset and Liability Committee
IT Committee
Credit Committee
Committee on Employee Discipline
Remedial and Special Assets Committee
Anti-Money Laundering Committee

## HONORIO O. REYES-LAO
Director

Trust Committee
Risk Management Committee

# OUR BOARD OF DIRECTORS

**JEFFREY S. YAO**
Director

Audit Committee
Risk Management Committee
Credit Committee

**AMADOR T. VALLEJOS, JR.**
Director

Audit Committee
Risk Management Committee
Corporate Governance Committee/
Nomination Committee
IT Committee

**DRA. LETICIA M. YAO**
Director

Trust Committee

ROBERTO A. ATENDIDO
Director

Audit Committee
Risk Management Committee
Corporate Governance Committee/
Nomination Committee

PATERNO H. DIZON
Independent Director

Audit Committee
Risk Management Committee
Corporate Governance Committee/
Nomination Committee

BENJAMIN R. STA. CATALINA, JR.
Independent Director

Audit Committee
Risk Management Committee
Corporate Governance Committee/
Nomination Committee

# OUR BOARD OF DIRECTORS' PROFILES

## ALFREDO M. YAO
CHAIRMAN EMERITUS

Chairman Emeritus and Adviser Amb. Alfredo M. Yao, 71, was first appointed to the Board in February 1997 and was conferred the title of Chairman Emeritus in July 2010 after stepping down as Chairman, a position he was appointed to in 1997.

An inspiring and iconic personality in the Philippines, his journey has been an amazing success story. Famously known as the 'Juice King,' Amb. Yao is not just the CEO of Zest-O-Corp. but also the founder of a clutch of firms — Semexco Marketing, Inc., Harman Foods, Amchem Marketing, Inc., American Brands Philippines, Inc., SMI Development Corporation, and the Philippine Business Bank.

He concurrently serves as the Chairman and President of ZESTO Corporation, Asiawide Refreshments Corporation (RC Cola), Asiawide Kalbe Phil., Inc., ARC Refreshments Corp., SEMEXCO Marketing, Harman Foods Phil., Inc., SOLMAC Marketing, Inc., Downtown Realty Investment, Inc., ONNEA Holdings, Inc., Mazy's Capital, Inc., Uni-Ipel Industries, Inc., and Amchem Marketing, Inc.

His other board chairmanships include Money Movers, Inc., Pharma-Rex, Inc., Zest Airways, ARC Holdings, Inc., SMI Development Corp., Mega Asia Bottling Corp., Macay Holdings, Inc., Bonaventure Development Corporation, and Summit Hotel & Resorts Specialists, Inc. Amb. Yao is concurrently the Chief Executive Officer of AMY Holdings, Inc., and BEVPACK.

He also holds ownership of ZEMAR Development, Inc., AMY Building Leasing and SOLMAC Marketing Inc. where he serves as General Manager to the latter.

A notable active Church-goer, philanthropist and patriot, he is recognized for his example and involvement of religious and civic responsibilities including Philippine Chamber of Commerce and Industry where he is currently the President, Chairman from 2012 to 2013, Vice President, Industry from 2009 to 2011; Chamber of Thrift Banks where he is a member of the Board of Trustees since 2010, Director from 2008 to 2009, President from 2007 to 2008, First Vice President in 2006, and Director in 2005; an active member of the Council of Leaders of the Employers Confederation of the Philippines; a Trustee of the Natural Wonders Tourism Foundation Phil., Inc.; Director to the following: Philippines, Inc., Cheyong Association, Manila Chinatown Development Authority, Philippines/ New Zealand Business Council. He is President of the Board of Trustees to Northern Rizal Yorklin School and KAISA Heritage Foundation, Inc. He is the Executive Vice President of the Soong Ching Ling Foundation and Caloocan Chamber of Commerce. A member of the Executive Committee of the Philippine Exporters Federation; and an active member of Management Association of the Phil., and Tzu Tsi Foundation.

With his dedication to his work, Amb. Yao has been the recipient of many honors including the prestigious PLDT SMEnation – hailed as the biggest search for Filipino entrepreneurs who embody the spirit of perseverance and success through technology. He was awarded the 2014 MVP GRAND BOSSING AWARD and 2014 MVP BOSSING AWARD; Organized Response for the Advance of Society, Inc. - 2014 AWARDEE (Representing Private Sector); Ernst & Young 2005 MASTER ENTREPRENEUR OF THE YEAR AWARD - The award recognizes outstanding high-growth entrepreneurs who demonstrate excellence and extraordinary success in such areas as innovation, financial performance and personal commitment to their businesses and communities; 2007 MOST ADMIRED ASEAN ENTERPRISE AWARD, Innovation Category held in Singapore; 2007 SPECIAL ENVOY OF THE PRESIDENT TO CHINA FOR TOURISM COOPERATION, given by the Department of Foreign Affairs; 2011 Tourism Awards – Award Distinction given by the Rotary Club of Manila; 2012 Gawad Recom Award given by the City of Caloocan; 2005 Most Outstanding Businessman of Caloocan given by the City of Caloocan during its Foundation Day; Centennial Taxpayer given by the Caloocan RDO 27 for 2002 & 2003; Quezon City's Business Top Taxpayers for 2007; 2005 Jose Rizal Award for Excellence given by The Manila Times & Kaisa Para Sa Kaunlaran, Inc.

Notwithstanding his success and achievements, he is guided by a big heart... this man is positively transforming the lives of children by paying their school fees to prepare them for a better future. His AMY Foundation, where he is the Chairman, provides scholarships to deserving Filipino youth, particularly impoverished students who still manage to excel academically. The grant is a full scholarship which covers tuition fees for the student's degree of choice and a stipend for personal allowances.

Amb. Yao holds a Degree in Engineering from Mapua Institute of Technology in 1962 and a PhD in Business Administration Honoris Causa from the Polytechnic University of the Philippines.

## FRANCIS T. LEE
CHAIRMAN

Chairman Francis T. Lee, 66, was appointed Chairman of the Board on 26 July 2010 and last re-elected as Director on 30 May 2014. He was appointed Chief Operating Officer (COO) on 01 September 2011 before he held the Chairman position.

Active in the community, he served as President of the AMY Foundation – the CSR of the Yao Group of Companies, from 08 December 2003 up to 08 December 2013.

A career banker for more than 30 years, Mr. Lee started his banking career with Pacific Bank where he gained much experience and knowledge. His career progressed as he held a number of executive positions from Senior Manager rising to Senior Vice President at the Metrobank Group from 1988 to 2000 before he joined PBB.

His expertise and trainings include Philippine Institute of Banking in 1969; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Team Building Workshop in 2004 at PBB; Risk Awareness Seminar in 2009 at the Pacific Management Forum; and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2012 and in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Lee studied Bachelor of Arts in Business Administration in Manuel L. Quezon University.

## PETER N. YAP

VICE CHAIRMAN

Vice Chairman Peter N. Yap, 67, was appointed Vice Chairman of the Board on 2 August 2010 and last re-elected as Director on 30 May 2014.

In the span of his 37-year successful banking career, he held various positions from Manager in RCBC in 1977, Senior Manager to Executive Vice President and Head of Retail Banking Group of Allied Banking Corp. from 1978 to 2009.

He also held directorships in Allied Savings Bank from 2009 to 2010; Allied Leasing and Finance Corp. from 2009 to 2010; and Bancnet, Inc. from 2003 to 2009 where he was also elected as the Treasurer.

His expertise and trainings include Officer Development Program in 1977 at RCBC; Management Development Workshop in 1978, Negotiable Instrument Seminar in 1979, International Workshop in 1979, Bank Selling Skills Program in 1980, Break-Even Analysis Workshop in 1982 all conducted by Allied Bank; AHI Developing Executive Skills in 1981 at the ASEAN Banking Council; Management Development Program – Kaizen in 1982 at Ancella, Inc.; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Yap graduated from the University of San Carlos with the degree of Bachelor of Science in Chemical Engineering and has taken MBA units from the University of the Philippines - Visayas.

## ROLANDO R. AVANTE

PRESIDENT & CEO

Pres. & CEO Rolando R. Avante, 55, was appointed to the Board on 02 November 2011. He held the position President and Chief Executive Officer since 02 November 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

Mr. Avante, a banking industry veteran with more than three decades of experience, is guiding Philippine Business Bank through a brand resurgence.

His banking career includes Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011.

He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999 and elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euromoney; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punong Bayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units, also from DLSU.

## HONORIO O. REYES-LAO

DIRECTOR

Mr. Honorio O. Reyes-Lao, 70, was appointed to the Board on 30 April 2010 and last re-elected as Director on 30 May 2014.

A seasoned banker, he has more than 40 years of experience in corporate and investment banking, branch banking and credit management, where he started his banking career at China Banking Corporation in 1973 to 2004. He was appointed Senior Management Consultant in 2005 to 2006 at East West Banking Corporation.

His expertise was sought by Antel Group of Companies, as Consultant, in 2007 to 2009 and was appointed President at Gold Venture Lease and Management Services, Inc. from 2008 to 2009.

Currently, he is an independent and non-executive director at the DMCI Holding Corporation and a Member of the Society of Institute of Corporate Directors (ICD) Fellows since 2004.

His background and trainings include Overall Banking Operations at the Philippine Institute of Banking in 1971 to 1972; Director Certification Program at the Institute of Corporate Directors (ICD) in 2004; and the AMLA Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

# OUR BOARD OF DIRECTORS' PROFILES

Mr. Lao holds a post-graduate degree, Masters in Business Management, from the Asian Institute of Management and he graduated with a double degree in Bachelor of Science in Business Administration major in Economics and Bachelor of Science in Commerce major in Accountancy from the De La Salle University.

## JEFFREY S. YAO
DIRECTOR

Mr. Jeffrey S. Yao, 46, was appointed to the Board in 1999 and last re-elected as Director on 30 May 2014.

He currently holds directorship at Asiawide Refreshments Corp. He was also appointed the Chief Operating Officer (COO) of the Zest-O Corporation since 2005.

Mr. Yao started his career in the food and beverage industry when he was appointed as Plant Manager at Harman Food Philippines from 1990 to 1995.

He completed trainings in Basic of Trust at the Trust Institute of the Philippines in 2002, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Yao graduated from the Ateneo De Manila University with the degree of Bachelor of Science in Management Engineering.

## AMADOR T. VALLEJOS, JR.
DIRECTOR

Mr. Amador T. Vallejos, Jr., 67, was appointed to the Board on 27 May 1997 and last re-elected as Director on 30 May 2014.

Currently the General Manager of AMCHEM, he is also the Chairman of King of Travel and President of SMI Development Company.

He held directorships at the Philippine Association of Food Technology in 1988, Philippine Chamber of Food Manufacturer in 1989; and the Philippine Article Numbering Council in 1992.

He is also a member of the Professional Risk Managers International Association (PRMIA) since 2009.

From 1974 to 1976 he held the Marketing Manager position at Rockgas and transferred to Edward Keller Ltd. as the Department Manager from 1976 to 1984.

His expertise and trainings include BAI Conference and Seminars on Technology in Banking taken in 1998 and 1999 both in BAI, USA; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Vallejos graduated from the Ateneo De Manila University with the degree of Bachelor of Arts in Economics.

## DRA. LETICIA M. YAO
DIRECTOR

Dra. Leticia M. Yao, 61, was appointed to the Board in 2009 and last re-elected as Director on 30 May 2014.

A well-respected figure in the healthcare industry, Dra. Yao was appointed at the United Doctors Medical Center (UDMC) as a Consultant at the Department of Medicine from 1991 to 2012.

She proceeded along trainings for Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002 and further taken the Risk Awareness Seminar at the Pacific Management Forum in 2009. Earlier this year, she attended the AMLA Seminar at the Bangko Sentral ng Pilipinas and Corporate Governance Seminar for Board of Directors in November and in December, 2014 to hone her skills as Director of PBB.

Dra. Yao graduated from the University of Sto. Tomas with a Bachelor of Science degree in Medical Technology then pursued her post graduate degree in Medicine also from the University of Sto. Tomas.

## ROBERTO A. ATENDIDO
DIRECTOR

Mr. Roberto A. Atendido, 67, was appointed to the Board on 26 May 2006 and last re-elected as Director on 30 May 2014.

He is a seasoned investment banker and a recognized expert in the field with over 30 years of investment banking and consulting experience in the Philippines and in the ASEAN region.

Mr. Atendido started his career in consulting with the management services group of Sycip, Gorres & Velayo, the largest accounting and consulting group in the Philippines. He began his investment banking career in Bancom Development Corporation, the leading investment house in the Philippines during the late 60's and 70's. He was later posted as Vice President of Bancom International Ltd in HK from 1980-1982. He then moved to PCI Capital Asia, Ltd. (HK) as Vice President from 1982-1983. The PCI Group posted him in Indonesia as Managing Director of PT Duta Perkasa Chandra Inti Leasing, a joint venture between the PCI Group of the Philippines and Bank Duta and Gunung Agung Group of Indonesia, from 1983-1988. Mr. Atendido moved back to the Philippines in 1988 as President of Asian Oceanic Investment House, Inc., a fully owned subsidiary of the Asian Oceanic Group of HK. The company was later bought by the Insular Life Group and renamed Insular Investment & Trust Corporation. In 1996, Mr. Atendido together with several investors organized Asian Alliance Holdings & Development Corporation (AAHDC) and later established Asian Alliance Investment Corp. (AAIC) as a wholly owned investment banking subsidiary. He is currently President of AAHDC and Executive Vice Chairman of AAIC.

Currently, Mr. Atendido is a member of the Board of Directors of Paxys Inc., Philippine Business Bank, PICOP Resources, Inc., Pharmarex, Inc. Ardent Property Development Corp., First Ardent Property Corp., and GEM Communications & Holding Corp. He is also Vice Chairman and Director of Sinag Energy Philippines, Inc., (since 2008), Chairman and President of Myka Advisory and Consulting Services, Inc. (since 2010).

He has also held directorships in the past in the Philippine Stock Exchange (2005-2009), Securities Clearing Corporation (2006-2010), Export & Import Bank as an Independent Director (2006-2012), Marcventures Holdings, Inc. (2010-2013), Carac-An Development Corp. as Chairman from 2010-2013, Beneficial Life Insurance Corp. from 2008-2014.

He has equipped himself with trainings in Corporate Governance & Risk Management for the Bank's Board of Directors at the Development Finance Institute in 2003; Risk Management and Basel 2 Seminar at the Export & Industry Bank in 2007. Earlier this year, he attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas and the Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Atendido is a graduate of the Asian Insitutute of Management with a Masters in Business Management Degree in 1973. He completed his Bachelor of Science in Management Engineering from the Ateneo de Manila University.

Apart from his business activities, Mr. Atendido is also active in the Brotherhood of Christian Businessmen and Professionals, a nation-wide Christian community where he served as Chairman from 2009-2011.

## BENJAMIN R. STA. CATALINA, JR.

INDEPENDENT DIRECTOR

Mr. Benjamin R. Sta. Catalina, 66, was appointed Independent Director to the Board on July 2012 and last re-elected as Independent Director on 30 May 2014. He first assumed his independent directorship at PBB in 2003 to 2005.

During his early professional years, Mr. Sta. Catalina was the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He later joined Citibank N.A. from 1981 to 1995 where he has served as Asst. Vice President & Division Head for the Public Sector Division, then became the Vice President and Asst. Director of the Asia Pacific Training Center. He later handled the Middle East Africa Division Training Center as Vice President and Associate Director, and then handled the World Corporation Group for Middle East Africa, Division Training Center as Regional Administrator. He was appointed to General Manager and handled the Center for International Banking Studies. In 1993 to 1994, Mr. Sta. Catalina was appointed Vice President and Chief of Staff of the Global Finance Marketing, then rose to Group Head where he handled the Pan Asian Corporate Team in 1994 to 1995.

In the academic sphere, he was the Executive Director of the Center for Banking and Financial Management of the Asian Institute of Management in 1996.

In addition to holding a number of executive positions, he underwent trainings including Makati CAD in 1974, Philippine Core Credit in 1976, Intermediate Credit Seminar in 1977, Exceptional Sales Performance in 1978, Bourse Game in 1979, Asset Based Finance Seminar in 1980, Electronic Banking Seminar in 1981, Selling Skills Train the Trainer Program in 1982, Advanced Lending Strategy in 1982, Technology for Senior Management in 1983 from the Asia Pacific Training Center. He attended Multinational Business Course in 1980 at Citibank New York, Face to Face Selling Skills in 1986 at the Boston Consulting Group. In 1987 he has attended the MAC Approach Course and Alcar Valuation Seminar at MEAD Training Center in Greece. He attended the Corporate Finance II in 1988 at the Asia Pacific Banking Institute. At MEAD Training Center in London, he attended the Risk Management Seminar and the Risk Management III – Corporate Finance in 1991. From 1993 to 1995, Mr. Sta. Catalina attended the Strengthening Organizational Capabilities, Service Quality Management, Technology Solutions for the Business, Marketing Derivatives Ideas, Standards Workshop, Marketing Financing Ideas to Issuers at Citibank Training Center.

Most recent, he attended the Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2003, and the Anti Money Laundering Act Seminar in 2014 and the Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Sta. Catalina is a graduate of the Asian Institute of Management with a post graduate degree of Masters in Business Management. He finished his Bachelor of Science in Management Engineering from the Ateneo De Manila University.

## PATERNO H. DIZON

INDEPENDENT DIRECTOR

Mr. Paterno H. Dizon, 76, was appointed Independent Director to the Board on April 2006 and last re-elected as Independent Director on 30 May 2014.

He had previously served as President to the following institutions: Science Park of the Phil. Inc., Cebu Light Industrial Park, Inc., and RFM Science Park of the Philippines from 1997 to 2003.

Mr. Dizon held directorships at Hermosa Ecozone Development Corp. from 1997 to 2003; Export & Industry Bank from 1994 to 2006; and EIB Securities from 2004 to 2006.

He served on the board of Phil. Export-Import Credit Agency from 2010 to 2012. He was elected as Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present. He has been the President and CEO of Holy Cross College of Pampanga since 2012.

His expertise includes trainings in Financial Management at SGV in 1974, Money and Banking from the Ateneo De Manila University in 1959, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, Risk Awareness Seminar at the Pacific Management Forum in 2009, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; the Corporate Governance Seminar for Board of Directors in November and in December, 2014.

Mr. Dizon holds a Bachelor of Science in Economics from the Ateneo De Manila University and a Master in Business Administration from the University of the Philippines.

# OUR MANAGEMENT

ALICE P. RODIL

SVP/ HEAD COMPTROLLER
Management Committee
IT Committee
Committee on Employee Discipline
Bid Committee

JOSEPH EDWIN S. CABALDE

SVP/ TREASURER
Management Committee
Asset and Liability Committee

RAYMOND T. CO

SVP/ HEAD OF AMG 1
Management Committee
Asset and Liability Committee
IT Committee
Remedial and Special Assets Committee

FELIPE V. FRIGINAL

FVP/ HEAD OF BRANCH BANKING
Management Committee
Asset and Liability Committee
IT Committee
Committee on Employee Discipline
Bid Committee
Anti-Money Laundering Committee

AGUSTIN E. DINGLE

FVP/ HEAD OF COMPLIANCE
Management Committee
IT Committee
Anti-Money Laundering Committee

KEITH S. CHAN

FVP/ HEAD OF INFORMATION TECHNOLOGY
Management Committee
IT Committee

LIZA JANE T. YAO

FVP/ HEAD OF GENERAL SERVICES
Management Committee
Asset and Liability Committee
Bid Committee

ROSELLE M. BALTAZAR

FVP/ HEAD OF CENTRAL OPERATIONS
Management Committee
IT Committee

MANUEL C. VALDEZ

HEAD OF INTERNATIONAL BANKING (CONSULTANT)
Management Committee

ANGELINE ANN H. HWANG

CHIEF LENDING OFFICER (CONSULTANT)
Management Committee

CLARISSA S. RIVERA

VP/ HEAD OF CONSUMER BANKING
Management Committee
Asset and Liability Committee

ATTY. ROBERTO S. SANTOS

VP/ HEAD OF LEGAL
Management Committee
Committee on Employee Discipline
Remedial and Special Assets Committee
Anti-Money Laundering Committee

# OUR MANAGEMENT

JOSELITO D. DE RIVERA

VP/ HEAD OF AMG 2
Management Committee
Asset and Liability Committee

MIAMI V. TORRES

VP/ HEAD OF CREDIT SERVICES
Management Committee
Remedial and Special Assets Committee

JOHN DAVID D. SISON

VP/ IRO & HEAD OF CORPORATE PLANNING
Management Committee
Asset and Liability Committee

FRANCISCO M. LOPEZ

VP/ HEAD OF HUMAN RESOURCES (CONSULTANT)
Management Committee
Committee on Employee Discipline

EDUARDO R. QUE

VP/ HEAD OF AMG 3
Management Committee
Asset and Liability Committee

EFREN P. MERCADO

VP/ HEAD OF BRANCH LENDING
Management Committee
Asset and Liability Committee

JUDITH C. SONGLINGCO

AVP/ HEAD OF PRODUCT DEVELOPMENT & CORPORATE AFFAIRS
Management Committee

MA. DORIS G. DE CHAVEZ

AVP/ HEAD OF CREDIT REVIEW
Management Committee

TERESITA S. SION

AVP/ HEAD OF TRUST
Management Committee
Trust Committee

LAURENCE R. RAPANUT

AVP/ HEAD OF AUDIT
Management Committee
Audit Committee
Committee on Employee Discipline
Bid Committee

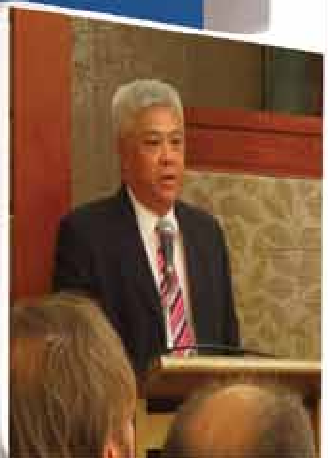
LUNINGNING T. RAMOS
AVP/ HEAD OF BRANCH OPERATIONS & CONTROL
Management Committee
IT Committee

# OUR EVENT HIGHLIGHTS

## GROWING FOR YOU


BUSINESSBANK

# OUR EVENT HIGHLIGHTS





BUSINESSBANK

# OUR EVENT HIGHLIGHTS


# GROWING FOR YOU

# OUR EVENT HIGHLIGHTS


# OUR EVENT HIGHLIGHTS

## A VISIONARY YEAR

I was once a salesman. I know the challenges that come with trying to convince people to buy what you're trying to sell.

I know the power of vision. I know what it's like to envision – for yourself and your customers – what selling your products can help you.

I know the power we all share as members of our organization. Yes, there are challenges ahead, but I believe from the bottom of my heart, that with all our strength, resources, capabilities and hard work, and not excluding prayers, we will not just overcome these challenges, but we will, indeed, thrive!

Our horizons are limited only by how far we allow ourselves to see. And with this year's achievements and innovations, we are on the way to making our visions, reality.

-Amb. Alfredo M. Yao giving his inspirational talk to Metro Manila Branch Heads and Senior Officers during the New Year's Greet last January 2, 2014.

## CONDUCTING ITS ANNUAL STOCKHOLDERS' MEETING

The Philippine Business Bank (PBB) held its Annual Stockholders' Meeting on May 30, 2014 at the New World Makati Hotel. PBB President and CEO Rolando R. Avante brought the stockholders up to speed on the bank's game plan for 2014, starting with comments on the outstanding financial results of 2013, and on how these served as manifestations of their excellent operations, in keeping with their set targets.

As Mr. Avante said, regarding their 2013 accomplishments, "We invested significantly behind our branches. As PBB ended the year by hitting the 100th branch mark, our footprints will continually be felt nationwide and our accessibility for prospects for small and medium businesses in search of capital is guaranteed."

Mr. Avante also reported on a number of important events during the year, such as improved coordination and use of group resources and strategic focus on growth markets. He also emphasized how the IPO fuelled the bank's growth as total resources grew significantly by 42 percent from P33.104 billion in 2012 to P47.158 billion in 2013.

## PARTNERING WITH US AID

True to his company's calling of empowering small and medium-sized enterprises, Rolando R. Avante, President and Chief Executive Officer of Philippine Business Bank, announced a new partnership between PBB and the United States Agency for International Development (US AID). This partnership shall allow PBB to extend new credit opportunities to small and medium enterprises around the provincial areas of the country. Under this program, PBB will financially assist the "underserved market" – the SMEs – focusing on businesses engaged in manufacturing, healthcare, energy, construction, tourism, or post-harvest agricultural processing and agribusiness (except those involving palm oil, citrus or sugar commodities).

Philippine Business Bank sees huge opportunities for driving growth through the SME market, the very market for which the bank was created. By executing a very deliberate strategy to transform the marketplace, PBB will be on the ground around the country – through its 100 branches – connecting with the communities it serves to help foster their economic growth.

PBB is making a difference by widening its presence across the country. "Hitting the 100th mark will help us reach more people and more business partners. PBB will continue to go where small and medium enterprises thrive, since these SMEs remain the focus of PBB when it comes to increasing its market base," says Avante.

Currently, a growing number of companies are forming partnerships with the government, multi-lateral organizations and bi-lateral aid agencies in order to share funding, expertise and shareholder networks. In line with this, PBB takes part in the same strategy by partnering with US AID.



Supporting the financing needs of projects implemented for SMEs is the key policy objective of PBB, as the SME sector represents the engine of its growth and innovation. By its partnership with US AID, PBB ensures that the benefits of providing loans on favorable terms reach eligible hands.

Avante added, "We are hopeful that, PBB's partnership with the US AID, by helping to address the needs of SMEs in developing countries like the Philippines, would have a positive impact on the lives of the people and be instrumental in enabling PBB to fulfill its mission. PBB would like to be used as a tool for the country's economic development through the creation of thousands of businesses and millions of jobs."

## SUPPORTING THE ECOP CONFERENCE FOCUSING ON ASEAN 2015

As the regional phenomenon that is the ASEAN Community draws closer on the horizon, employers throughout the Philippines are gearing up to meet its attendant possibilities and challenges, as the region prepares to transform "into a single market and production base".

May 15-16, 2014 saw the Employers Confederation of the Philippines (ECOP) hold the 35th National Conference of Employers (NCE 35) carrying the theme, "Evolving ASEAN Market: Towards Inclusive Growth and Prosperity". The gathering took place at the Marriott Hotel.

NCE 35 brought together CEOs, entrepreneurs, and business leaders to confront issues involved in the ASEAN integration by 2015. The Conference theme focused on the challenges and opportunities arising from the free flow of goods and services as well as labor mobility.

The Conference is a springboard for the business sector top brass and its corporate executives to tackle concerns regarding labor-management relations and the general business climate.

Philippine Business Bank, as a member of the private sector, supports the government in its pursuit of a development strategy revolving around a development plan anchored on massive infrastructure investments, higher governance standards, human development and direct poverty relief, and employment generation.

## STANDING BEHIND THE PHILIPPINE CHAMBER OF COMMERCE & INDUSTRY

The recently concluded 40th Philippine Business Conference and Expo, held at the Manila Hotel, was supported by the Philippine Business Bank, the financial arm of the Yao Group of Companies.

With this year's theme: "Proudly Pinoy: Partnering Towards Sustained Growth", the event laid down the roadmap necessary to strategically position Philippine industries and enterprises, in order to allow them to seize a share of the global market as the latter moves towards the ASEAN integration.

As stressed by this year's PCCI President, Amb. Alfredo M. Yao: "PCCI is dedicated to serving the business community and to providing education and support services, all meant to further evolve local industries and enterprises – particularly small- and medium-size enterprises – into globally competitive ventures. PCCI has focused its strategies to create synergies among government and local businesses led by the chamber's development stakeholders."

PBB takes part in that same strategy. It supports the financing of projects implemented for SMEs, which is the key policy objective of the Bank. PBB recognizes that the SME sector represents the engine for growth and innovation.

PBB is making a difference by widening its presence across the country. Currently operating more than 100 branches, the Bank can reach more people and more business partners, as it continues to go where the small and medium enterprises thrive.

# OUR EVENT HIGHLIGHTS









## GROWING FOR YOU











# OUR EVENT HIGHLIGHTS


# OUR AWARDS


## MAKING A TECHNIQUE OUT OF INNOVATION

The world of business thrives on change. As a bank, the aim of which is to help small and medium-sized businesses prosper, the Philippine Business Bank (PBB) made headway in 2014 in the area of technological innovation. Keeping abreast of developments in information technology, PBB sets huge strides in enabling itself to provide better solutions to its clientele. More than being just an empty boast, PBB's accomplishments did not go unnoticed.

## THE EVIDENCE IN THE ACCOLADES

In 2014, PBB technology initiatives received two international technology awards. These awards are given to those who epitomize excellence and innovation in the category of financial technology.

The Philippine Business Bank is one of four Filipino banks that were awarded by the Asian Banking and Finance during the Wholesale Banking Awards held at the Marina Bay Sands in Singapore in July of 2014. For the second consecutive year, PBB was accorded the award for The Philippines Domestic Technology and Operations Bank of the Year. This, they garnered from among a field of nominees sent by top Asian banks, and judged by representatives from Deloitte, Ernst and Young, PwC and KPMG.

Remarking on the Bank's achievement, Mr. Keith Chan, the First Vice President of PBB's Information Technology Group said, "We are delighted to have, once again, been recognized by the industry for our ongoing innovation and excellence in development and delivery of modern technology solutions and customer service. This award was made possible by the IT Group together with PBB's solution providers who use emerging technology to create an efficient, user-friendly payment gateway."

Impressive as earning the latter award, two years in a row, may seem; this wasn't the only accolade that PBB earned in 2014. Earlier in the year, PBB was also given another prestigious award, this time from the Global Banking and Finance Review, a London- based online magazine. The award was for Best Banking Technology Philippines 2014. The Global Banking and Finance Review is an invaluable online resource for professionals in the financial sector. It keeps its readers up to date on the latest international news and analysis on banking and business as well as on important developments and conversations in the world of technology. It is with pride then, that PBB accepted this award from the Global Banking and Finance Review.

These awards are testaments to the Philippine Business Bank's top-caliber operations, standards and services. They are also clear manifestations of the bank's successful application of leading industry solutions in support of the needs of their clients and customers.

As Philippine Business Bank President and Chief Executive Officer Rolando R. Avante commented, "These international awards clearly highlight PBB's commitment to producing world-class and competitive banking solutions that meet the growing demand of the clients' needs."

## TRIUMPHANTLY TOP 30

It is clear that this said commitment of PBB to providing solutions to its roster of clients is bearing fruit in recognition dealt out by authorities in the field. In 2014, PBB earned citation as well from the Financial Insights Innovation Awards (FIIA). PBB's Technology Strategy for Future Proofing its Enterprise Data Center was cited as being among the Top 30 Technology Initiatives to look out for at the International Data Corporation (IDC) Asian Financial Services Congress 2014 at the Marina Bay Sands in Singapore in February.

This is an initiative that involved transforming the bank's data center to future-proof its technology platform supporting the bank's short, medium and long-term business growth targets, while simultaneously optimizing its IT operations. It is an initiative that was implemented immediately following the bank's Initial Public Offering in 2013. The panel of independent judges at the IDC Asian Financial Services Congress 2014 was captivated by PBB's use of cutting-edge technology for this initiative, making this the third time that the bank was cited for such work. It is worthy to note that PBB was the lone Philippine bank participating in the FIIA Top 30 Initiatives list. Other technology initiatives of PBB were also cited during the 2011 and 2012 IDC Asian Financial Services Congress.

The Asian Financial Services Congress, now on its 10th year, is designed to gather the industry's pre-eminent thought leaders, practitioners and innovation champions, alongside IDC Financial Insight's expert team of consultants. Their aim is to help define the industry's next decade. IDC Financial Insights is the region's leading research and advisory firm helping banks, insurers and financial institutions choose or short-list solutions and vendors, assess their business or IT master plans, and devise operational best practices. Headquartered in Framingham, Massachusetts, USA, the International Data Corporation is a subsidiary of IDG, the world's leading technology, media, research and events company.

During an interview conducted by F. Y. Teng of Mr. Keith Chan, head of PBB's Information Technology Group; Mr. Chan was asked what he would like to be known for in the industry, "As a prudent decision-maker who can utilize emerging technologies to optimize IT operation and cost," replied Mr. Chan. Judging from the success of PBB's initiatives, Mr. Chan's good intentions are being fulfilled.

## SOARING ON THE CLOUD

An organization in-step with the times innovates in accord with the latest developments. In this age when financial institutions are moving toward cloud computing, with the latter services on the rise across the business landscape, PBB begins employing the use of cloud technology.

Cloud computing is transforming the manner by which financial institutions think about how they consume resources allocated for IT. At present, technology is a costly hurdle for financial institutions. Cloud technology promises low-cost, easily scalable solutions and improved operational efficiency and has elicited the interest of big and small businesses alike.

As other banks in the Philippines consider moving into this direction, Philippine Business Bank has already began the use of cloud technology and is currently enjoying its benefits. In fact, Mr. Keith Chan has been speaking to different audiences abroad about the said technology. He was also invited to be involved in a panel discussion under the theme of Enabling Cloud Computing for 2015's FSIs by IDC Financial Insights in March of 2014 at the Marina Bay Sands in Singapore. "PBB has opted to move to cloud computing mainly because of the great promise of cost savings, efficiency and agility," says Mr. Chan. "We are architecting for the future by enabling ourselves to provide a high level of service for clients and employees while confining cost," he added.

# OUR PRODUCTS & SERVICES

### DEPOSIT PRODUCTS

Savings Account
Checking Account
ATM
Automatic Transfer Account *(ATA)*
Payroll Account
Campus Savers (*Kiddie Account)*
Time Deposit *(Regular & 5-year TD)*
FCDU *(SA & TD)*
Hi-Green Fund

### TRUST PRODUCTS AND SERVICES

PBB Diamond Fund-a UITF
Living Trust
Trustee of Pre-Need Plans
Escrow Agency
Safekeeping & Depository
Mortgage Trust
Investment Management
Arrangement- Personal or Corporate

### LOAN PRODUCTS

Auto loan
Housing Loan
Bus Loan
Contract to Sell *(CTS)*
Financing Facilities

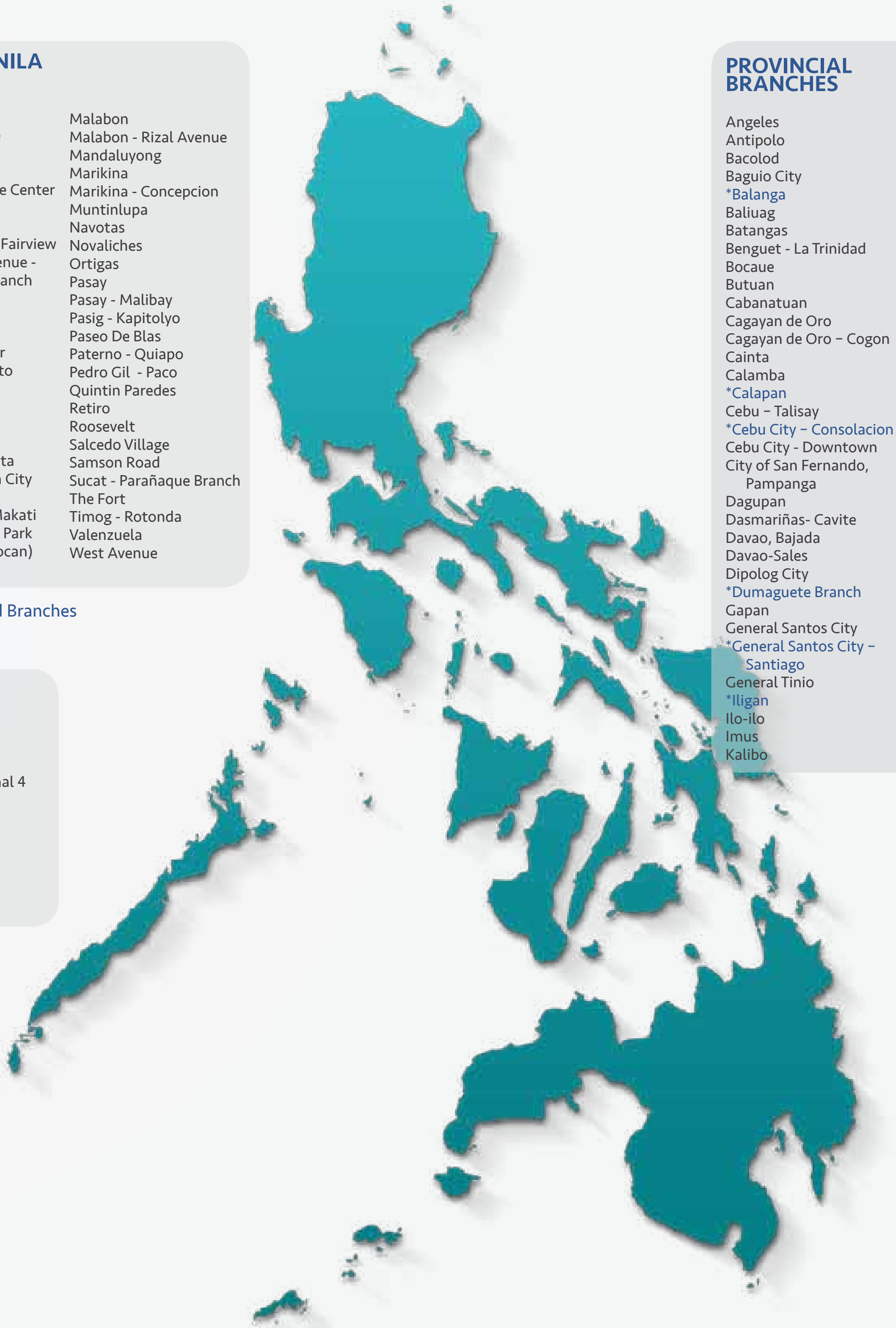
### COMMERCIAL, INDUSTRIAL, AND DEVELOPMENTAL LOANS

Bills Purchase
Term Loan
Omnibus Line
Discounting Line
Trade Finance
Agriculture Loans
Specialized Lending Facilities for SMEs
Floor Stock/ Inventory Financing

### OTHER BUSINESS SERVICES

Remittance Services
- Mail & Telegraphic Transfers
*(Domestic & International)*
- Western Union Money Transfer
- Money Movers
Local Payment Orders
- Manager's Check / Gift Check /
Demand Draft
Foreign Drafts
Safety Deposit Box Facilities
Night Depository Box
*(available at selected branches*)*
Group Payroll Services
Bills Payment / Collection Services
SSS Payments / PhilHealth
** The Fort, Calamba, Batangas City*

# OUR LOCATION MAP



## METRO MANILA BRANCHES

A. Mabini - C3
Adriatico - Malate
Banawe
Banawe - Kaliraya
Binondo Corporate Center
Camarin
Carmen Planas
Commonwealth - Fairview
Congressional Avenue - Quezon City Branch
Cubao
Del Monte
EDSA - Caloocan Business Center
EDSA - Monumento
Elcano
Grace Park
Greenhills
*Jose Abad Santos
Karuhatan - Malinta
Kaybiga, Caloocan City
Las Piñas
Legaspi Village - Makati
Madrigal Business Park
Main Office (Caloocan)
Makati
Malabon
Malabon - Rizal Avenue
Mandaluyong
Marikina
Marikina - Concepcion
Muntinlupa
Navotas
Novaliches
Ortigas
Pasay
Pasay - Malibay
Pasig - Kapitolyo
Paseo De Blas
Paterno - Quiapo
Pedro Gil - Paco
Quintin Paredes
Retiro
Roosevelt
Salcedo Village
Samson Road
Sucat - Parañaque Branch
The Fort
Timog - Rotonda
Valenzuela
West Avenue

* Newly Opened Branches

## OFFSITE ATMS

Baliuag - Rugay
Colon - Cebu
Domestic - Terminal 4
Lanang - Bajada
Manna Mall
Market Market
Mary Mount
Molito
NAIA Terminal 3

## PROVINCIAL BRANCHES

Angeles
Antipolo
Bacolod
Baguio City
*Balanga
Baliuag
Batangas
Benguet - La Trinidad
Bocaue
Butuan
Cabanatuan
Cagayan de Oro
Cagayan de Oro – Cogon
Cainta
Calamba
*Calapan
Cebu – Talisay
*Cebu City – Consolacion
Cebu City - Downtown
City of San Fernando, Pampanga
Dagupan
Dasmariñas- Cavite
Davao, Bajada
Davao-Sales
Dipolog City
*Dumaguete Branch
Gapan
General Santos City
*General Santos City – Santiago
General Tinio
*Iligan
Ilo-ilo
Imus
Kalibo
Laoag
*Lanang
Lapu-Lapu City
Legazpi City
Lipa City
Lucena City
Malolos
Mandaue
Masinag – Antipolo
Meycauayan
*Molino, Bacoor
Muzon
Naga
Olongapo
*Ozamis City
Puerto Princesa
San Fernando City, La Union
San Pablo
*San Pedro
*Santiago, Isabela
Sorsogon
Sta. Maria
Sta. Rosa, Laguna
Tacloban
Tagbilaran
*Tagum City, Davao
Tanauan
Tarlac
Tarlac – Paniqui
*Taytay
*Toril
Tuguegarao
Urdaneta
*Vigan
Zamboanga

# OUR BRANCHES

## METRO MANILA

### A. Mabini - C3
200 A. Mabini St. Maypajo, Caloocan City
Phone: (632) 287-8895; 287-6621
Fax: (632) 288-1249
Branch Head: Milka Diaz
Email: diaz_ma@pbb.com.ph

### Adriatico -Malate
G/F Hostel 1632
Adriatico Street, Malate, Manila
Phone:353- 3258; 450-1482
Fax: 353-3262
Branch Head: Danilo D. Mendiola
Email: mendiola_dd@pbb.com.ph

### Banawe
Unit 5-7 Solmac Bldg. 84 Dapitan
cor. Banawe Sts. Sta. Mesa Heights,
Quezon City
Phone: (632) 410-8350; 708-5810; 410-9019
Fax: (632) 410-8656
Branch Head: Elizabeth S. Cheung
Email: cheung_es@pbb.com.ph

### Banawe - Kaliraya
Motorex Philippines, Inc. Building 148
Banawe cor. Kaliraya St., Barangay
Tatalon, Quezon City
Phone: 448-6613; 711-0918; 711-1015
Fax: 711-0918
Branch Head: Robert E. Paras

### Binondo Corporate Center
1126 Soler St. Binondo, Manila
Phone: (632) 242-0601; 242-7927; 310-3785
Fax: (632) 310-3784
Branch Head: Corazon Gutierrez
Email:gutierrez_cs@pbb.com.ph

### Camarin
Zabarte Town Center 588 Camarin Road,
corner Zabarte Road, North Caloocan City
Phone: (632) 962-0232; 962-0160; 962-0627
Fax: (632) 962-0160
Branch Head: Celito Aquilar
Email: aguilar_cq@pbb.com.ph

### Carmen Planas
869 Carmen Planas St. Binondo, Manila
Phone: (632) 245-5066; 245-5083; 522-7972
Fax: (632) 245-5226
Branch Head: Alice P. Rañola
Email: ranola_ap@pbb.com.ph

### Commonwealth - Fairview
G/F Datamex - College of St. Adeline,
Commonwealth Avenue, East Fairview
Park Subdivision, Quezon City
Phone: (632) 376-9477; 428-7104
Fax: (632) 376-2358
Branch Head: Imelda Savella

### Congressional Avenue - Quezon City Branch
No. 622 Congressional Avenue,
Barangay Bahay Toro, Quezon City
Phone: 921-2919; 921-2932
Fax: 453-7242
Branch Head: Carminda A. Baculi
Email: baculi_ca@pbb.com.ph

### Cubao
Units D, E & F Timbol Bldg. 915
Aurora Blvd. Cubao, Quezon City
Phone: (632) 709-3649; 709-3695
Fax: (632) 438-9966
Branch Head: Sonia C. Sy
Email: sy_sc@pbb.com.ph

### Del Monte
284-286 Del Monte Ave., Quezon City
Phone: (632) 708-5801; 749-9103;
414-2726
Fax: (632) 749-9103
Branch Head: Siu Bee Belen Y. Ang
Email: ang_bs@pbb.com.ph

### EDSA - Caloocan Business Center
574 Epifanio delos Santos, EDSA
Highway Kalookan City
Phone: (632) 363-2493; 363-0165
Fax: (632) 363-1635
Branch Head: Christina Aquino
Email: aquino_cj@pbb.com.ph

### EDSA- Monumento
261 EDSA Highway, Barangay 85,
Zone 8, Caloocan City
Phone: 949-8673
Branch Head: Gina Lopez
Email: lopez_gc@pbb.com.ph

### Elcano
730 Elcano St., Binondo, Manila
Phone: (632) 241-9824; 241-5629
Fax: (632) 241-4287
Branch Head: Rosemarie T. Apostol
Email: apostol_rt@pbb.com.ph

### Grace Park
249 Rizal Avenue Extension cor. 7th
Avenue, Grace Park, Caloocan City
Phone: 361-1004; 361-0941; 577-6536
Fax: 361-0941
Branch Head: Merle Perpetua C. Singson
Email: singson_mpc@pbb.com.ph

### Greenhills
G/F LGI Building, Ortigas Avenue,
Barangay Greenhills, San Juan
Phone: (632) 234-9018; 576-8365
Fax: (632) 234-9016
Branch Head: Ma. Cristina Balaoing

### Jose Abad Santos
1737-1739 Jose Abad Santos,
Tondo, Manila
Phone: 230-2340; 230-4033; 964-8216
Fax: 230-4099
Branch Head: Antonio C. Chua
Email: chua_ac@pbb.com.ph

### Karuhatan - Malinta
Ground Floor HPS Building,
McArthur Highway, Karuhatan,
Valenzuela City
Phone: (632) 922-0898; 444-3688
Fax: (632) 922-0891
Branch Head: Anna Melissa B. Laiz
Email: laiz_amb@pbb.com.ph

### Kaybiga, Caloocan City
Guilmar Marble Corporation Bldg.
297 General Luis Street Kaybiga,
Caloocan City
Phone: (632) 352-7872; 417-0165
Fax: (632) 352-7791
Branch Head: Ruperto Poblete, Jr.
Email: poblete_rc@pbb.com.ph

### Las Piñas
Unit 1 & 2 G/F San Beda Commercial
Zapote Alabang Rd., Las Piñas
Phone: (632) 874-7966; 808-7292
Fax: (632) 875-0589
Branch Head: Christine F. Suriaga
Email: suriaga_cf@pbb.com.ph

### Legaspi Village- Makati
Sunrise Terraces, 100 Perea Street,
Legaspi Village, Barangay San Lorenzo,
Makati City
Phone: 551-2416; 551-2419; 310-5929
Fax: 551-2416
Branch Head: Mellany Peralta

# OUR BRANCHES

**Madrigal Business Park**
Unit 102 G/F Corporate Center
1906 Finance Drive Madrigal
Business Park, Muntinlupa City
Phone: (632) 822-6646; 822-6716
Fax: (632) 822-2706
Branch Head: Florante V. Fajardo
Email: fajardo_fv@pbb.com.ph

**Main Office (Caloocan)**
350 Rizal Ave. Ext cor. 8th Avenue.,
Grace Park, Caloocan City
Phone: (632) 363-3333
Fax: (632) 363-0291
Branch Head: Stephen Y. Co
Email: co_sy@pbb.com.ph

**Makati**
137 Yakal St., Makati City
Phone: (632) 892-6768; 817-5720;
892-8498
Fax: (632) 812-4755
Branch Head: Dolora Palma

**Malabon**
155 Gov. Pascual Ave., Malabon City
Phone: (632) 288-0078; 446-3444;
287-7873
Fax: (632) 287-7873
Branch Head: Karen Mae Rivera
Email: rivera_kme@pbb.com.ph

**Malabon - Rizal Avenue**
726 Rizal Avenue Barangay Tañong,
Malabon City
Phone: (632) 447-6044; 376-1434; 376-1433
Fax: (632) 447-6044
Branch Head: Ermirilda Singson

**Mandaluyong**
Unit I, Facilities Centre Shaw Blvd.,
Mandaluyong City
Phone: (632) 470-3244; 718-0103
Fax: (632) 531-3537
Branch Head: Yolanda L. Cruz
Email: cruz_yl@pbb.com.ph

**Marikina**
306 J. P. Rizal St., Sta. Elena
Marikina City
Phone: (632) 646-5864; 933-3109
Fax: (632) 646-6294
Branch Head: Emanuele Santos

**Marikina - Concepcion**
Bayan- Bayanan Avenue,
Concepcion Uno, Marikina City
Phone: 955-6172; 948-56-88
Fax: 948-4213
Branch Head: Sherlyn De Guzman
Email: deguzman_sl@pbb.com.ph

**Muntinlupa**
G/F Units 1 & 2 # 50 National Road,
Putatan, Muntinlupa City
Phone: 798-0284; 511-7354; 551-0010
Fax: 551-0010
Branch Head: Jane Aquilino

**Navotas**
G/F Teresita Bldg. Northbay Blvd.,
South Navotas City
Phone: (632) 355-4143; 355-4159; 383-1410
Fax: 355-4274
Branch Head: Raisheena L. Daza
Email: daza_rl@pbb.com.ph

**Novaliches**
Krystle Bldg. 858 Quirino Highway
Novaliches, Quezon City
Phone: (632) 936-3467; 938-4038
Fax: (632) 418-3132
Branch Head: Laura B. Anonuevo
Email: anonuevo_lb@pbb.com.ph

**Ortigas**
Ortigas Home Depot Complex P28-29,
Bldg. B, 1 Julia Vargas Avenue,
corner Meralco Avenue,
Barangay Ugong, Pasig City
Phone: (632) 470-7944; 570-6862; 914-7032
Fax: 570-6863
Branch Head: Marcia Ann G. Guevarra
Email: guevarra_mag@pbb.com.ph

**Pasay**
2241 C. k. Sy Bldg. Taft Ave., Pasay City
Phone: (632) 551-5830; 836-7108; 836-7109
Fax: (632) 551-5833
Branch Head: Edna Madamba
Email: madamba_ec@pbb.com.ph

**Pasay - Malibay**
Unit E, J&B Building
641 Epifanio Delos Santos Avenue
(EDSA), Malibay, Pasay
Phone: 622-8158; 403-3231; 403-2386
Branch Head: Lorrine G. De Dios

**Pasig-Kapitolyo**
Ground Fl., Unit 4 Elements on
Rosemarie Bldg.,Pasig Blvd. corner
Rosemarie Street, Pasig City
Phone: (632) 234-0607, 446-0183
Fax: (632) 234-0608
Branch Head: Christine Jane Payson
Email: payson_cjr@pbb.com.ph

**Paso De Blas**
Paso de Blas Road cor. P. Santiago St.
Barangay Paso de Blas, Valenzuela City
Phone: (632) 292-4136; 292-3575;
293-1933
Fax: (632) 293-1933
Branch Head: Cecilia S. Lopez
Email: lopez_cs@pbb.com.ph

**Paterno - Quiapo**
707 Paterno St., Barangay 307,
Quiapo, Manila
Phone: 354-9670; 354-9695; 310-5217
Fax: 354-9695
Branch Head: Darlene Daphne Sy
Email: sy_ddt@pbb.com.ph

**Pedro Gil- Paco**
1077 Pedro Gil St. Paco, Manila
Phone: 498-1952; 354-3239
Fax: 354-5141
Branch Head: Rowena L. Chua
Email: chua_rl@pbb.com.ph

**Quintin Paredes**
G/F Downtown Center Bldg. Quintin
Paredes St., Binondo, Manila
Phone: (632) 242-8039; 242-0871;
241-7123
Fax: 242-0871
Branch Head: Debbie Tan
Email: tan_tt@pbb.com.ph

**Retiro**
No. 84 Units A & B N.S. Amoranto Ave.,
Barangay Salvacion, La Loma, Quezon City
Phone: 625-8213; 711-2175; 711-2538
Fax: (632) 363-0291
Branch Head: Nelson E. Tia

# OUR BRANCHES

**Roosevelt**
Sun Square Building, 323 Roosevelt Avenue, Barangay San Antonio, San Francisco
Del Monte, Quezon City
Phone: 376-1135; 376-1426; 411-6345
Fax: 376-1135
Branch Head: Patricia Lou A. Bautista
Email: bautista_pla@pbb.com.ph

**Salcedo Village- Makati**
Unit GDA-1, LPL Center,
130 L.P. Leviste St., Salcedo Village,
Makati City
Phone: 550-2480; 550-2482; 621-9220
Fax: 550-2482
Branch Head: Eliel B. Aparri
Email: aparri_eb@pbb.com.ph

**Samson Road**
117 D & E Samson Road, Caloocan City
Phone: (632) 310-9068; 332-8506
Fax: (632) 332-9495
Branch Head: Rosalie T. Belen
Email: belen_rt@pbb.com.ph

**Sucat- Paranaque Branch**
Unit B-10-A Jaka Plaza Mall
A. Santos Avenue, Sucat, Paranaque City
Phone: 552-2548; 501-6247
Fax: 552-2547
Branch Head: Perlita Peralta

**The Fort**
Units 104-105 Forbeswood Towers,
Forbestown Center, Rizal Drive cor.
Burgos Circle, Bonifacio Global City,
Taguig City
Phone: (632) 856-6653; 856-6654
Fax: (632) 856-6652
Branch Head: Imelda Baleros
Email: baleros_ig@pbb.com.ph

**Timog - Rotonda**
A.A Tanco Building 55 Timog Avenue cor.
Tomas Morato Avenue,
Barangay South Triangle, Quezon City
Phone: 41-0895; 376-9530; 950-6003
Branch Head: Maria Senta B. Castro
Email: castro_msb@pbb.com.ph

**Valenzuela**
215 McArthur Highway, Karuhatan,
Valenzuela City
Phone: (632) 443-8113; 443-8118; 292-3296
Fax: (632) 443-9030
Branch Head: Imelda D. Uy
Email: uy_id@pbb.com.ph

**West Avenue**
Unit 102, West Ave. Strip,
53 West Ave., Brgy. Paltok, Quezon City
Phone: 709-7109; 709-7110
Fax: 411-0355
Branch Head: Aileen M. Halata
Email: halata_am@pbb.com.ph

## PROVINCIAL

**Angeles**
Lot 5 Blk 1 McArthur Highway,
Angeles City
Phone: (045) 626-2088 to 89; 888-7205
Fax: (045) 626-2087
Branch Head: Araceli Manalili
Email: manalili_ac@pbb.com.ph

**Antipolo**
Units 3 & 4 Megathon
Bldg. Circumferential Road,
Brgy. San Roque, Antipolo City
Phone: (632) 697-3051 or 54; 630-5186
Fax: (632) 697-3018
Branch Head: Elizabeth Sales
Email: sales_ek@pbb.com.ph

**Bacolod**
Philamlife Bacolod Bldg., Lacson St.
cor Galo Street, Bacolod City
Phone: (034) 435-5745; 435-5734; 435-5683
Fax: (034) 435-5744
Branch Head: Ma. Christina Escaño

**Baguio City**
G/F CTTL Bldg. Abanao Ext., Baguio City
Phone: (074) 447-2692; 447-2694
Fax: (074) 447-2693
Branch Head: Mary Ann Sereño
Email: sereno_mads@pbb.com.ph

**Balanga**
Don Manuel Banzon Avenue
Balanga City, Bataan
Phone: (047) 237-1137 ; (047) 237-1136
Branch Head:Mark Rickley C. Fuentes
Email: fuentes_mrc@pbb.com.ph

**Baliuag**
B.S. Aquino Ave. Bagong Nayon
Baliwag, Bulacan
Phone: (044) 673-5216; 673-5452
Fax: (044) 766-3485
Branch Head: Loreta Rueda
Email: rueda_lt@pbb.com.ph

**Batangas**
Cifra Plaza, No. 114 Rizal Avenue cor.
P. Zamora Street, Barangay 16, Batangas City
Phone: (043) 702-2385; 702-1182; 702-1162
Fax: (043) 425-0053
Branch Head: Dina Rose M. Cruz
Email: cruz_drm@pbb.com.ph

**Benguet - La Trinidad**
KM 5, La Trinidad, Benguet
Phone: (074) 422-97-94 ; (074) 422-97-92 ; (074) 422-97-93
Branch Head: Glenda L. Padilla

**Bocaue**
Mac Arthur Highway, Barangay Wakas,
Bocaue, Bulacan
Phone: (044) 233-3615
Branch Head: Mary Joy R. Figueroa
Email: figueroa_mjr@pbb.com.ph

**Butuan**
Montilla Boulevard cor. T. Calo St.,
Butuan City, Agusan Del Norte
Phone: (085) 815-0512; 815-0513
Branch Head: Melchora U. Donoso
Email: donoso_mu@pbb.com.ph

**Cabanatuan**
Paco Roman St., Cabanatuan City,
Nueva Ecija
Phone: (044) 940-1470; 464-7411; 464-7417
Fax: (044) 940-1491
Branch Head: Ma. Victoria Garcia
Email: garcia_mvl@pbb.com.ph

**Cagayan de Oro**
Door 1 & 2 Surposa Bldg. 281 Recto Ave.,
Lapasan Highway, Cagayan de Oro City
Phone: (088) 231-6680; 231-6682;
231-6683
Fax: (088) 231-6681
Branch Head: Phil P. Bada
Email: bada_pp@pbb.com.ph

**Cagayan de Oro - Cogon**
ALLA Inc. Building, JR Borja St.
(near corner Don Apolinar Velez Street)
Barangay 32, Cagayan De Oro City,
Misamis Oriental
Phone: (088) 323-1625
Branch Head: Rowena L. Ching
Email: ching_rl@pbb.com.ph

**Cainta**
Unit B5 and B6, The Avenue,
Felix Avenue, Cainta, Rizal
Phone: (632) 645-6631; 647-5622
Fax: (632) 681-1658
Branch Head: Marlon Lim
Email: lim_ma@pbb.com.ph

**Calamba**
G/F Unit 2 Kim-Kat Annex Bldg.,
National Highway, Brgy. Parian,
Calamba, Laguna
Phone: (049) 545-0980; 508-0059;
834-3283
Fax: (02) 420-820
Branch Head: Mildred Llorente
Email: llorente_ms@pbb.com.ph

**Calapan**
Ast Tolentino Building, JP Rizal St.,
Brgy. San Vicente, Calapan City, Oriental
Mindoro
Phone: (043) 743-0003; 459-0015;
459-0024
Fax: Branch Head: Veronica G. Tagupa
Email: tagupa_vg@pbb.com.ph

**Cebu - Talisay**
Door 3 Rosalie Building, Gaisano Fiesta
Mall, Tabunok, Cebu South Road
(aka Tabunok Highway), Talisay City, Cebu
Branch Head: Darlene A. Credo

**Cebu City - Consolacion**
Highway Consolacion
(Fronting Cebu Home Builders)
Barangay Cansaga, Consolacion, Cebu
Phone: (032) 2363476 ; 2364299
Branch Head: Maria Lourdes I. Logarta

**Cebu City - Downtown**
G/F Lianting Bldg. 130 F. Gonzales Street,
Cebu City
Phone: (032) 253-2518; 255-6490; 255-6607
Fax: (032) 253-2366
Branch Head: Kian Hua Tee
Email: tee_kh@pbb.com.ph

**City of San Fernando, Pampanga**
G/F Hyatt Garden Bldg.
Dolores City of San Fernando, Pampanga
Phone: (045) 961-0524; 961-1854; 860-3858
Fax: (045) 961-0523
Branch Head: Elinor Guinto
Email: guinto_ee@pbb.com.ph

**Dagupan**
Rizal St., Dagupan City, Pangasinan
Phone: (075) 523-4701; 523-4781; 516-2045
Fax: (075) 523-4732

**Dasmariñas- Cavite**
Unit G2 Annie's Plaza Dasma,
Barangay San Agustin I, Dasmariñas
City, Cavite
Phone: (046) 431-4926;431-7368; 431-7854
Fax: 431-7564
Manager: Wilfred D. Abobo
Email: abobo_wd@pbb.com.ph

**Davao, Bajada**
G/F DCCCII Bldg., JP Laurel Ave.
Bajada, Davao City
Phone: (082) 222-5146; 300-4386;
222-2316
Fax: (082) 300-4385
Manager: Raymond Nonato
Email: nonato_rp@pbb.com.ph

**Davao-Sales**
Door 7 & 8 JM Bldg. Governor Sales St.,
Davao City
Phone: (082) 222-4281; 222-4452
Fax: (082) 224-4457

**Dipolog City**
No. 331 P. Burgos St.(near corner Rizal
Ave.Dipolog City, Zamboanga Del Norte
Phone: (065) 908-1576 ; (065) 908-1700
Branch Head: Stephen Y. Co
Email: co_sy@pbb.com.ph

**Dumaguete Branch**
Ground Floor C&L Suites Inn,
485 Perdices Street cor. Pinili Street,
Barangay Poblacion 3, Dumaguete City
Phone: 035-400-4800
Branch Head:Sergio C. Basco
Email: basco_sc@pbb.com.ph

**Gapan**
Tinio St. Brgy. San Vicente,
Gapan City, Nueva Ecija
Phone: (044) 486-1439, 486-2437;
486-0893
Fax: (044) 862-2437
Branch Head: R-lyn delos Reyes
Email: delosreyes_rg@pbb.com.ph

**General Santos City**
GSC SunCity Suites, SunCity Complex
B-1-03 & B-1-04 National Highway
Lagao, General Santos City
Phone: (083) 301-6014; 301-6015;
552-0591
Fax: (083) 301-6014
Branch Head: Genevieve Calderon
Email: calderon_gd@pbb.com.ph

**General Santos City - Santiago**
Santiago Boulevard, Barangay Dadiangas
South, General Santos City
Phone: (083)552-5712 ; 083-552-2209
Branch Head:Peter T. Salvador
Email: salvador_pt@pbb.com.ph

**General Tinio**
Poblacion Central (Papaya)
Gen. Tinio, Nueva Ecija
Phone: (044) 973-0468, 973-0598;
973-0716
Fax: (044) 973-0468
Branch Head: Claris Teppang
Email: teppang_cq@pbb.com.ph

# OUR BRANCHES

**Iligan**
Doromal Building, Quezon Ave. Extension, Barangay Villaverde, Iligan City
Phone: (063) 222-3971; 302-0107; 302-0074
Fax: (063) 222-4197
Branch Head: Edgar Jose C. Penaranda
Email: penaranda_ejc@pbb.com.ph

**Ilo-ilo**
25 Quezon Street, Ilo-ilo City
Phone: (033) 336-5250; 336-5933; 336-9086
Fax: (033) 336-9472
Branch Head: Helen Chua
Email: chua_hc@pbb.com.ph

**Imus**
Aguinaldo Highway, Tanzang Luma, Imus, Cavite
Phone: (046)-472-3663; 472-3664
Fax: (046) 529-8630
Branch Head: Lolita Solis
Email: solis_lj@pbb.com.ph

**Kalibo**
Roxas Avenue, Poblacion, Kalibo City, Aklan
Phone: (036) 390-0040; 390-0039; 500-7253
Fax: (036) 390-0039
Branch Head: Judy T. Roldan
Email: roldan_jt@pbb.com.ph

**Laoag**
G/F Laoag Allied Marketing Bldg. Barangay 19, Rizal St. Laoag City
Phone: (077) 772-3027; 772-3041; 772-3042; 771-1523
Fax: (077) 772-3041
Branch Head: Olivia Marie Albano
Email: albano_omc@pbb.com.ph

**Lanang**
Fuji One Building, KM. 7, Lanang, Davao City
Phone:(082) 234-2879; 234-2933; 305-4621; 300-8876
Branch Head: Diozenda M. Chan
Email: chan_dm@pbb.com.ph

**Lapu-Lapu City**
G/F AMCO Building
M. L. Quezon National Road Pajo, Lapu-Lapu City, Cebu
Phone: (032) 495-2831; 236-3018
Fax: (032) 238-8590
Branch Head: Cherry Mae Parba
Email: parba_cms@pbb.com.ph

**Legazpi City**
D' Executive Building, Rizal St., Barangay Tinago, Legazpi City, Albay
Phone: (052) 736-0011; (052) 480-8595; (052) 480-2815
Fax: (052) 736-0019
Branch Head:Efren P. Guanzon
Email: guanzon_ep@pbb.com.ph

**Lipa City**
Units 1, 2, 3 & 4 Trinity Business Center Ayala Highway, Barangay Balintawak, Lipa City
Phone: (043) 706-1310; 706-1312; 771-1523
Fax: (043) 455-1020
Branch Head: Marilou L. Vinas
Email: vinas_ml@pbb.com.ph

**Lucena City**
Quezon Avenue, Lucena City
Phone: (042) 797-1839; 797-0528; 322-0086
Fax: (042) 797-1838
Branch Head: Kathrina Urda

**Malolos**
Paseo del Congreso Catmon, Malolos City, Bulacan
Phone: (044) 760-4833 to 36
Fax: (044) 760-4834
Branch Head: Kristine Joy M. Yambao

**Mandaue**
Unit 1-2 Wireless Plaza Bldg. H. Cortes Avenue cor Hi-way Seno Subangdaku, Mandaue City
Phone: (032) 345-4462; 345-1520; 345-5274
Fax: (032) 345-2657

**Masinag - Antipolo**
Unit 104 G/F Rikd Centre Marcos Highway, Mayamot Antipolo City
Phone: (632) 654-6654; 250-2135
Fax: 654-6034
Branch Head: Jose Pastor
Email: pastor_jl@pbb.com.ph

**Meycauayan**
Medical Plaza Bldg. McArthur Highway, Banga, Meycauayan, Bulacan
Phone: (044) 840-4855; 769-6327
Fax: (044) 769-6329
Branch Head: Girlie Patricia Agustin
Email: agustin_gpdl@pbb.com.ph

**Molino, Bacoor**
Solgrande Centre, Molino Business Centre, Molino Road, Molino 2, Bacoor, Cavite
Branch Head: Emelda Vitug
Email: vitug_ep@pbb.com.ph

**Muzon**
807 Luwasan Muzon,City of San Jose del Monte, Bulacan
Phone: (044) 760-4703; 760-4709; 691-2141
Fax: (044) 760-4711
Branch Head: Chyrel B. Tuazon
Email: tuazon_cb@pbb.com.ph

**Naga**
Unit C G/F CBD Plaza Hotel Ninoy and Cory Ave., Central Business District II Triangulo, Naga City
Phone: (054) 811-2816; 811-2854; 811-2193; 473-6303
Fax: (054) 473-6309
Branch Head: Arnel Cu
Email: cu_ap@pbb.com.ph

**Olongapo**
2420 Rizal Avenue Barangay East Bajac Bajac, Olongapo City
Phone: (047) 222-9949; 222-9951; 222-9957
Fax: 222-9950
Branch Head: Robert T. Gaw
Email: gaw_rt@pbb.com.ph

**Ozamis City**
G/F Insular Life Bldg., Don Anselmo Bernad Ave. (National Highway) cor. Jose Abad Santos St., Ozamis City, Misamis Occidental
Phone: (088) 319-0308; 319-0309
Manager: Chiao Bon C. Sy

**Puerto Princesa**
New Carlos Building, 271 Rizal Avenue,
Central Business District, Maningning,
Puerto Princesa City, Palawan
Phone: (048) 433-0151; 433-0060; 433-0049
Fax: 433-0159
Manager: John Lover C. Sendaydiego
Email: sendaydiego_jlc@pbb.com.ph

**San Fernando City, La Union**
G/F Virginia Bldg. Quezon Ave. cor.
Flores St. Dominion Bus Terminal,
National Highway
Phone: (072) 242-0350; 242-0210; 242-3836
Fax: (072) 242-0372
Branch Head: Virginia Mamaril
Email: mamaril_vf@pbb.com.ph

**San Pablo**
Lynderson Building, Lopez Jaena St.
San Pablo City, Laguna
Phone: (049) 300-0149; 521-1158
Fax: (049) 521-1121
Branch Head: Jower T. Buerano
Email: buerano_jt@pbb.com.ph

**San Pedro**
Alex Building, National Highway,
Barangay Poblacion, San Pedro, Laguna
Phone: (02) 843-4099
Fax: (02) 843-4098
Branch Head: Ma. Luz M. Infante
Email: infante_mlm@pbb.com.ph

**Santiago, Isabela**
City Road (Near cor. Camacam St.),
Barangay Centro East, Santiago, Isabela
Branch Head: Amiel Garcia

**Sorsogon**
Chiang Kai Shek School Building,
Magsaysay Avenue, Sorsogon City
Phone: (056) 558-0010; 558-0011
Fax: (056) 421-6422
Branch Head: Rodo M. Borile
Email: borlie_rm@pbb.com.ph

**Sta. Maria**
Angelica Bldg. Gov. F. Halili Ave.,
Bagbaguin, Sta. Maria, Bulacan
Phone: (044) 641-2546; 815-3983; 288-2713
Fax: (632) 299-6326
Branch Head: Eugenio Nicolas
Email: nicolas_ed@pbb.com.ph

**Sta. Rosa, Laguna**
100 Balibago located along National
Highway, corner Roque Lasaga Street,
Balibago, Sta. Rosa Laguna
Phone: (049) 534-5622; 534-5624;
534-5627; 534-5629
Fax: (049) 837-2324
Branch Head: James D. Ocampo
Email: ocampo_jd@pbb.com.ph

**Tacloban**
Zamora St., Tacloban City
Phone: (053) 526-0616; 832-0002; 832-0074
Fax: (053) 832-0065
Branch Head: Marjorie Y. Restor
Email: restor_my@pbb.com.ph

**Tagbilaran**
EB Gallares Building, C.P. Garcia Avenue,
Tagbilaran City, Bohol
Phone: (038) 411-0831; 411-0832; 411-0837
Fax: (038) 411-0832
Branch Head: Rona K. Hamac

**Tagum City, Davao**
Roxas St. corner Osmeña
St. Tagum City, Davao
Phone: (084) 216-1724 ; (084) 216-1725 ;
(084) 216-1726
Branch Head:Ronnie B. Bacaron
Email: bacaron_rb@pbb.com.ph

**Tanauan**
Jose P. Laurel Avenue,
Barangay Poblacion, Tanauan City
Phone: (043) 702-7408; 700-7409
Fax: (043) 702-7407
Branch Head: Mary Delshelle G. Lto
Email: llanto_mdg@pbb.com.ph

**Tarlac**
Liwayway Bldg. F. Tañedo Street,
Tarlac City
Phone: (045) 491-1353; 491-1350; 491-4795
Fax: (045) 491-1352
Branch Head: Sandy Chua
Email: chua_sw@pbb.com.ph

**Tarlac - Paniqui**
G/F unit 8, Greenfield Building,
Zamora St. Poblacion Sur, Paniqui Tarlac
Phone: (045) 606-10-85 ; (045) 606-1190;
(045) 491-85-05
Branch Head: Rubia E. Lee
Email: lee_re@pbb.com.ph

**Taytay**
Brgy. San Juan, Taytay, Rizal
Phone:(02) 234-1899; 234-2580
Branch Head:Melbert C. Nataño
Email: natano_mc@pbb.com.ph

**Toril**
Gaisano Grand Mall Toril, Unit GL 8B &
GL 9, Saavedra St., Toril, Davao City
(082) 285-9154; 293-9005
Branch Head:Adonis Fontreras

**Tuguegarao**
6 Rizal St., Barangay 8, Tuguegarao City
Phone: (078) 501-1049; 304-0243; 884-0496
Fax: (078) 844-0292
Branch Head: Amando B. Mangantulao Jr.
Email: mangantulao_ab@pbb.com.ph

**Urdaneta**
Unit 1, The Pentagon - GNC Building,
Mc Arthur Highway, Nancayasan,
Urdaneta, Pangasinan
Phone: (075) 568-5886; 568-1073;
656-2108; 656-3012
Fax: (075) 568-5876
Branch Head: Cherry Nuñez
Email: nunez_cy@pbb.com.ph

**Vigan**
Luisa Trading Building, Quezon Ave.
cor Salcedo St., Brgy 3, Vigan City
Phone:(077) 673-0067; 250-2664;
250-2659
Branch Head: Leslie Formoso
Email: formoso_la@pbb.com.ph

**Zamboanga**
Wee Agro Building Veterans Avenue,
Zamboanga City
Phone: (062) 310-0657; 955-2201; 955-1024
Fax: (062) 955-1047
Branch Head: Jeanette J. Mendoza
Email: mendoza_jj@pbb.com.ph

# OUR CORPORATE
# SOCIAL RESPONSIBILITY

## A BIG HEART FOR SMES,
## A BIG HEART FOR EVERYBODY

Many people are in business to give other people, such as those most significant to them, a good life. This point is not lost on the members, most specially the top brass, of Philippine Business Bank (PBB). It is for this reason that on top of all the breakthroughs in technological innovation that PBB attained in 2014, the company also, through its CSR arm, the AMY Foundation, endeared itself to the hearts of economically challenged individuals by way of Corporate Social Responsibility initiatives that provided hope for the future.

## ALWAYS GRATEFUL

PBBs efforts have not gone unnoticed. Last February 21, 2014, a program dubbed “Flashback Friday” was held at Philippine Normal University’s (PNU) Geronima Pecson Hall. It was meant to be, “a day of endless gratitude”. Scholarship donors and student benefactors of PNU were given a tribute and recognition by scholars, in coordination with the Office of Student Affairs and Student Services.

AMY Foundation has been partnering with PNU since 2007 in providing scholarships to the school’s economically challenged but academically deserving students. Currently, AMY Foundation has ten (10) slots from its roster of scholars for PNU. The certificate of appreciation was received by the Coordinator for Volunteers, Ms. Luningning T. Ramos, on behalf of the Foundation.

## KEEPING HOPE AFLOAT

Some fortunate fishermen have caught hope. On December 17, 2013, Philippine Business Bank (PBB) made a donation through its AMY Foundation to KAISA para sa Kaunlaran for its Bangkabuhayan Project. The donation covered the cost of ten (10) bancas that would be given to the pre-identified victims of the fishing communities severely affected by the Typhoon Yolanda.

The project came to fruition on July 31, 2014 when the bancas were finally donated to the recipients from Camotes Island. Present during the ceremonial turnover were the four (4) Mayors of the following Municipalities of Camotes Island: Hon. Erwin Yu of Tudela, Hon. Jesus Fernandez Jr. of Pilar, Hon. Aly Arquillano of San Francisco and Hon. Luciano Rama Jr. of Poro. Together with KAISA Incumbent Board of Director and past President Mr. Ganny Tan, KAISA Program Coordinator Ms. Eleanor Gonzales, and Mr. Rick Jordan Benarao, Branch Operations Officer of a PBB branch in Cebu, they all attended on behalf of the Bank and AMY Foundation.

After the MOA signing, the respective mayors of each municipality made a commitment message which was


# RESPONSIBLE BANKING, BY HEART

# OUR CORPORATE SOCIAL RESPONSIBILITY

eventually followed by the blessing of the bancas.
The fishermen-beneficiaries excitedly jumped in to their new bancas and tested them in the nearby sea. They said that the bancas were light and capable riding the sea waves. Mr. Rick Jordan capped the ceremony by giving a speech; a sumptuous lunch was prepared for everybody.

AMY Foundation is one of the active members of KAISA.

## A SHOT IN THE ARM

In an act of humanitarian giving, officers and staff of Philippine Business Bank, through concerted efforts, recently raised a total of Php100,000 for donation to the Philippine Red Cross (PRC). The said donation was coursed through the AMY Foundation. On August 15, 2014, the said donation was handed over to PRC-Caloocan by PBB officers and staff who are also active volunteers of AMY Foundation. Among them was Ms. Alice P. Rodil, SVP and Controller of PBB and at the same time Executive Director of the Foundation. This donation was received by Mr. Russel C. Ramirez, Chairman of the Board of Directors of PRC – Caloocan Chapter.

## A SERENADE OF GRATITUDE

It's been said that the best way to spread Christmas cheer is singing loud for all to hear. Although this may just be a line out of the holiday movie Elf, the students of the Northern Rizal Yorklin School cheerfully lived out the truth of it as they carolled the Management of Philippine Business Bank, all in the spirit of the season. This has been the school's yearly tradition.

For more than a decade, PBB has been supporting the school's efforts to put all its children on the path to success. "We are pleased to support the Northern Rizal Yorklin School, which includes many of our grantee partners. Philanthropy can play a significant role in supporting the expansion of quality early childhood education, though PBB cannot do this alone. The sustainability of this effort lies in connecting the systems and funding streams across community partners in order to work together in prioritizing support for education," says PBB Chairman Francis T. Lee.

As PBB Chairman Emeritus, Amb. Alfredo M. Yao said: "Education is not a privilege reserved only for those who can afford it, but an inalienable right of every human born in this planet." Holding on to these words, PBB is thrilled knowing its efforts will put hundreds of children on the path to a good life. The bank remains steadfast in its commitment to be a strong supporter of high-quality early childhood education.

A bank can be a source of hope. The truth of this is quite evident to the Philippine Business Bank, given its experience in supporting the hopes and dreams of small and medium scale business owners. In 2014, PBB took this role of being a hope-giver to the economically challenged. For PBB, it's being an instrument for a better life is something the stockholders can count on.

## STREET KIDS NEED CHRISTMAS, TOO

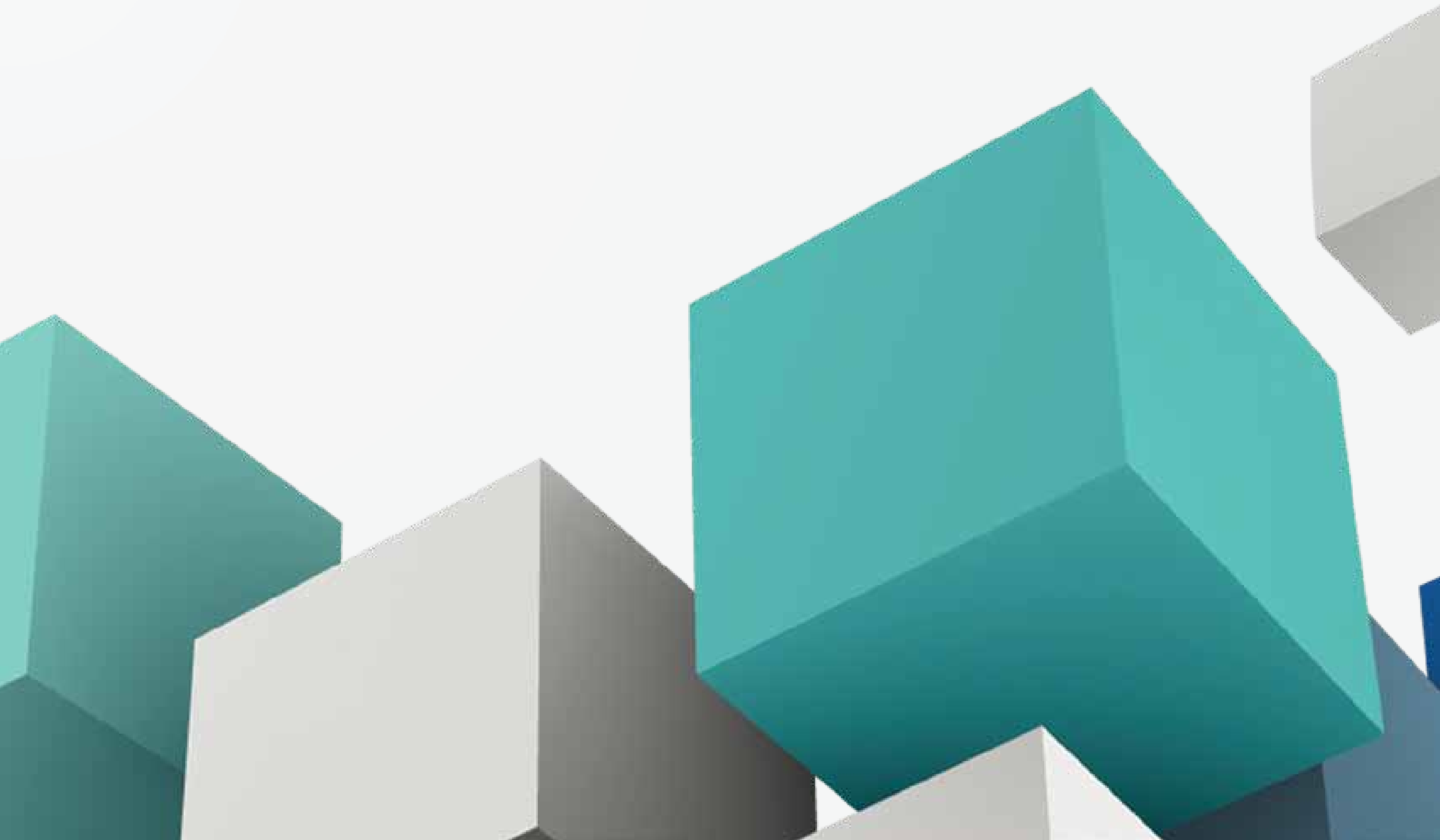
For the AMY Foundation's officers, staff and volunteers, bad weather wasn't about to get in the way of making 100 street children from Barangays 103, 121, 122 and 124 enjoy the Christmas spirit. Braving inclement weather, the people from AMY Foundation went on treat the children to a Christmas Party.

Ms. Linalyn Gabrido, one of the active volunteers of AMY Foundation, and also the Barangay Chairman of Barangay 121 led the affair. The organizers initially planned to have parlor games for the kids, but decided not to push through with them due to the weather. The spirit of Christmas joy was still present though, as the kids happily clapped and cheered to the amusement of the volunteers. It may be true what is said then, that Christmas is truly a season for children.

The entire community enjoyed the party, most especially the kids who received loot bags containing candies, toys and school kits to bring home. A delicious merienda, shared by everybody, made the party complete.

PHILIPPINE BUSINESSBANK
a savings bank
Making Things Happen...Today!

# AUDITED FINANCIAL STATEMENTS 2014



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Business Bank, Inc. A Savings Bank (the Bank) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014, 2013 and 2012 in accordance with Philippine Financial Reporting Standards, including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules required under Annex 68-E of the Securities Regulation Code Rule 68;
b. Reconciliation of Retained Earnings Available for Dividend Declaration;
c. Schedule of Philippine Financial Reporting Standards and Interpretations adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2014; and,

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews the financial statements and the additional supplemental information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Francis T. Lee
Chairman of the Board

Rolando R. Avante
President

Alice P. Rodil
Senior Vice President & Controller

Signed this 15th day of April 2015

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Philippine Business Bank, Inc. A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Business Bank, Inc. A Savings Bank, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

# INDEPENDENT AUDITOR'S REPORT

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Business Bank, Inc. A Savings Bank as at December 31, 2014 and 2013, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2014 required by the Bureau of Internal Revenue as disclosed in Note 30 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 4748307, January 5, 2015, Makati City

SEC Group A Accreditation
Partner - No. 0007-AR-3 (until Apr. 30, 2015)
Firm - No. 0002-FR-3 (until Apr. 30, 2015)
BIR AN 08-002511-7-2014 (until Aug. 5, 2017)
Firm's BOA/PRC Cert. of Reg. No. 0002
(until Dec. 31, 2015)

April 15, 2015

# STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

*(Amounts in Philippine Pesos)*

| | Notes | | 2014 | | 2013 |
|---|---|---|---|---|---|
| **RESOURCES** | | | | | |
| **CASH AND OTHER CASH ITEMS** | 9 | **P** | **1,174,011,464** | P | 735,667,668 |
| **DUE FROM BANGKO SENTRAL NG PILIPINAS** | 9 | | **4,554,441,827** | | 3,597,209,300 |
| **DUE FROM OTHER BANKS** | 10 | | **2,031,581,088** | | 671,482,943 |
| **TRADING AND INVESTMENT SECURITIES** | | | | | |
| At fair value hrough profit or loss | 11 | | **171,891,804** | | 917,630,877 |
| Available-for-sale | 12 | | **1,715,736,721** | | 7,908,049,843 |
| Held-to-maturity | 13 | | **5,962,970,252** | | 8,656,409 |
| **LOANS AND OTHER RECEIVABLES - Net** | 14 | | **40,110,256,377** | | 31,599,913,333 |
| **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT** - Net | 15 | | **515,766,476** | | 476,837,632 |
| **INVESTMENT PROPERTIES** - Net | 16 | | **705,735,722** | | 445,660,554 |
| **OTHER RESOURCES -** Net | 17 | | **912,123,484** | | 796,520,701 |
| **TOTAL RESOURCES** | | **P** | **57,854,515,215** | P | 47,157,629,260 |
| **LIABILITIES AND EQUITY** | | | | | |
| **DEPOSIT LIABILITIES** | 18 | | | | |
| Demand | | **P** | **681,026,719** | P | 4,944,474,190 |
| Savings | | | **17,224,051,369** | | 8,781,500,500 |
| Time | | | **28,714,329,538** | | 24,156,036,054 |
| Total Deposit Liabilities | | | **46,619,407,626** | | 37,882,010,744 |
| **BILLS PAYABLE** | 19 | | **309,521,852** | | 193,927,801 |
| **ACCRUED EXPENSES AND OTHER LIABILITIES** | 20 | | **2,903,219,245** | | 2,055,211,767 |
| Total Liabilities | | | **49,832,148,723** | | 40,131,150,312 |
| **EQUITY** | 21 | | | | |
| Capital stock | | | **4,911,667,500** | | 4,053,334,000 |
| Additional paid-in capital | | | **1,998,396,816** | | 1,998,396,816 |
| Surplus | | | **1,663,231,027** | | 2,047,684,423 |
| Revaluation reserves | | ( | **550,928,851**) | ( | 1,072,936,291) |
| Total Equity | | | **8,022,366,492** | | 7,026,478,948 |
| **TOTAL LIABILITIES AND EQUITY** | | **P** | **57,854,515,215** | P | 47,157,629,260 |

***See Notes to Financial Statements.***

# STATEMENTS OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
*(Amounts in Philippine Pesos)*

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **INTEREST INCOME** | | | | |
| Loans and other receivables | 14 | **P 2,366,338,136** | P 1,814,946,365 | P 1,284,470,654 |
| Trading and investment securities | 11, 12, 13 | **431,775,906** | 368,600,681 | 346,975,551 |
| Due from Bangko Sentral ng Pilipinas and other banks | 9, 10 | **37,236,220** | 45,503,957 | 22,489,319 |
| Securities purchased under reverse repurchase agreements | 14 | **545,833** | 2,713,239 | 52,927,125 |
| | | **2,835,896,095** | 2,231,764,242 | 1,706,862,649 |
| **INTEREST EXPENSE** | | | | |
| Deposit liabilities | 18 | **596,886,481** | 489,258,915 | 608,049,195 |
| Bills payable | 19 | **2,221,806** | 8,609,402 | 25,917,742 |
| Others | 23 | **1,508,448** | 1,738,852 | 1,297,045 |
| | | **600,616,735** | 499,607,169 | 635,263,982 |
| **NET INTEREST INCOME** | | **2,235,279,360** | 1,732,157,073 | 1,071,598,667 |
| **IMPAIRMENT LOSSES** | 14, 16 | **189,887,127** | 178,193,789 | 72,417,710 |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** | | **2,045,392,233** | 1,553,963,284 | 999,180,957 |
| **OTHER INCOME** | | | | |
| Service charges, fees and commissions | | **127,487,177** | 73,829,527 | 67,727,501 |
| Trading gains - net | 11, 12, 13, 14 | **34,827,391** | 816,773,032 | 713,001,287 |
| Miscellaneous | 22 | **144,153,797** | 38,228,379 | 104,216,068 |
| | | **306,468,365** | 928,830,938 | 884,944,856 |
| **OTHER EXPENSES** | | | | |
| Salaries and other employee benefits | 23 | **479,552,337** | 392,749,657 | 320,793,394 |
| Occupancy | 26 | **209,871,217** | 172,761,117 | 163,561,196 |
| Taxes and licenses | 30 | **306,352,118** | 265,247,277 | 223,137,873 |
| Depreciation and amortization | 15, 16, 17 | **125,460,891** | 105,713,999 | 77,573,667 |
| Insurance | | **109,164,821** | 84,456,483 | 61,805,245 |
| Management and other professional fees | | **88,896,599** | 130,457,358 | 94,039,960 |
| Representation and entertainment | | **31,944,122** | 30,848,276 | 23,656,561 |
| Miscellaneous | 22 | **221,974,156** | 172,786,419 | 208,406,187 |
| | | **1,573,216,261** | 1,355,020,586 | 1,172,974,083 |
| **PROFIT BEFORE TAX** | | **778,644,337** | 1,127,773,636 | 711,151,730 |
| **TAX EXPENSE** | 25 | **242,439,233** | 123,727,024 | 56,562,168 |
| **NET PROFIT** | | **P 536,205,104** | P 1,004,046,612 | P 654,589,562 |
| **Earnings Per Share** | | | | |
| Basic and Diluted | 29 | **P 1.10** | P 2.34 | P 1.83 |

***See Notes to Financial Statements.***

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
*(Amounts in Philippine Pesos)*

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **NET PROFIT** | | **P 536,205,104** | P 1,004,046,612 | P 654,589,562 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Remeasurements of post-employment defined benefit plan | 23 | **( 2,187,913)** | ( 12,978,354) | ( 9,233,893) |
| Tax income | 25 | **656,374** | 3,893,506 | 2,770,168 |
| | | **( 1,531,539)** | ( 9,084,848) | ( 6,463,725) |
| **Items that will be reclassified subsequently** to profit or loss | | | | |
| Fair value gain (loss) on available-for-sale securities during the year - net | 12 | **124,563,684** | ( 1,042,090,203) | 185,130,710 |
| Fair value loss (gain) recycled to profit or loss | | **393,988,832** | ( 323,766,597) | ( 384,450,196) |
| Amortization of fair value loss on reclassified securities | 12, 13 | **4,986,463** | - | - |
| | | **523,538,979** | ( 1,365,856,800) | ( 199,319,486) |
| **Other Comprehensive Income (Loss) - net of tax** | | **522,007,440** | ( 1,374,941,648) | ( 205,783,211) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **P 1,058,212,544** | P 370,895,036 | P 448,806,351 |

***See Notes to Financial Statements.***

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

*(Amounts in Philippine Pesos)*

| | | Capital Stock | | | Surplus | | Revaluation Reserves | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Preferred Stock | Common Stock | Additional Paid-in Capital | Appropriated | Unappropriated | Unrealized Fair Value Gains (Losses) on Available-for-sale Securities | Accumulated Actuarial Gains (Losses) | Total Equity |
| BALANCE AS OF JANUARY 1, 2014 | | P 620,000,000 | P 3,433,334,000 | P 1,998,396,816 | P 1,764,202 | P 2,045,920,221 | P 104,3281,000 | P 29,655,291 | P 7,026,478,948 |
| Stock dividends | 21 | - | 858,333,500 | - | - | ( 858,333,500) | - | - | - |
| Cash dividends | 21 | - | - | - | - | ( 62,325,000) | - | - | ( 62,325,000) |
| Appropriation for trust reserves | 21 | - | - | - | 1,647,698 | ( 1,647,698) | - | - | - |
| Total comprehensive income (loss) | 12, 23 | - | - | - | - | 536,205,104 | 523,538,979 | ( 1,531,539) | 1,058,212,544 |
| **BALANCE AS OF DECEMBER 31, 2014** | | **P 620,000,000** | **P 4,291,667,500** | **P 1,998,396,816** | **P 3,411,900** | **P 1,659,819,127** | **P 519,742,021** | **P 31,186,830** | **P 8,022,366,492** |
| BALANCE AS OF JANUARY 1, 2013 | | P 620,000,000 | P 2,420,000,000 | P - | P 873,498 | P 1,042,764,313 | P 322,575,800 | P 20,570,443 | P 4,385,643,168 |
| Share issuance during the year | 21 | - | 1,013,334,000 | 1,998,396,816 | - | - | - | - | 3,011,730,816 |
| Appropriation for trust reserves | 21 | - | - | - | 890,704 | ( 890,704) | - | - | - |
| Total comprehensive income (loss) | 12, 23 | - | - | - | - | 1,004,046,612) | ( 1,365,856,800) | ( 9,084,848) | ( 370,895,036) |
| BALANCE AS OF DECEMBER 31, 2013 | | P 620,000,000 | P 3,433,334,000 | P 1,998,396,816 | P 1,764,202 | P 2,045,920,221 | P 1,043,281,000 | P 29,655,291 | P 7,026,478,948 |
| BALANCE AS OF JANUARY 1, 2012 | | P 245,000,000 | P 420,000,000 | P - | P 277,564 | P 2,489,120,685 | P 521,895,286 | P 14,106 ,718 | P 3,662,186,817 |
| Collection of subscription receivable | | 375,000,000 | - | - | - | - | - | - | 375,000,000 |
| Stock dividends | 21 | - | P2,000,000,000 | - | - | ( 2,000,000,000) | - | - | - |
| Cash dividends | 21 | - | - | - | - | ( 100,350,000) | - | - | ( 100,350,000) |
| Appropriation for trust reserves | 21 | - | - | - | 595,934 | ( 595,934) | - | - | - |
| Total comprehensive income (loss) | 12, 23 | - | - | - | - | 654,589,562 | ( 199,319,486 | ( 6,463,725) | 448,806,351 |
| BALANCE AS OF DECEMBER 31, 2012 | | P 620,000,000 | P 420,000,000 | - | P 873,498 | P 1,042,764,313 | P 322,575,800 | P 20,570,443 | P 4,385,643,168 |

# STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
*(Amounts in Philippine Pesos)*

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 778,644,337 | P 1,127,773,636 | P 711,151,730 |
| Adjustments for: | | | | |
| Depreciation and amortization | 15, 16, 17 | 125,460,891 | 105,713,999 | 77,573,667 |
| Impairment losses | 14, 16 | 189,887,127 | 178,193,789 | 72,417,710 |
| Gain on sale of properties - net | 22 | ( 27,801,013) | ( 17,233,626) | ( 12,226,663) |
| Gain on foreclosure - net | 22 | ( 87,676,870) | ( 6,239,465) | ( 1,018,455) |
| Operating profit before working capital changes | | 978,514,472 | 1,388,208,333 | 847,897,989 |
| Decrease (increase) in financial assets at fair value through profit or loss | | 745,739,073 | ( 917,630,877) | 207,742,896 |
| Increase in loans and other receivables | | ( 9,327,174,393) | ( 10,892,111,672) | ( 4,515,632,998) |
| Decrease (increase) in other resources | | ( 71,552,383) | 67,869,366 | ( 605,354,089) |
| Increase in deposit liabilities | | 8,737,396,882 | 11,433,124,006 | 5,253,898,621 |
| Increase in accrued expenses and other liabilities | | 745,196,586 | 373,334,420 | 593,604,633 |
| Cash generated from operations | | 1,808,120,237 | 1,452,793,576 | 1,782,157,052 |
| Cash paid for income taxes | | ( 177,589,674) | - | ( 98,405,502) |
| Net Cash From Operating Activities | | 1,630,530,563 | 1,452,793,576 | 1,683,751,550 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of available-for-sale (AFS) securities | 12 | 1,535,846,420 | 15,422,983,845 | 13,255,781,864 |
| Acquisition of AFS securities | 12 | ( 443,590,778) | ( 18,912,353,899) | ( 13,528,772,418 |
| Acquisition of bank premises, furniture, fixtures and equipment | 15 | ( 149,373,100) | ( 169,372,809) | ( 127,465,704 |
| Proceeds from sale of investment and other properties | 16, 17 | 128,723,649 | 267,590,427 | 256,035,465 |
| Proceeds from sale of bank premises, furniture, fixtures and equipment | | 268,663 | 2,214,982 | 4,094,440 |
| Acquisition of held-to-maturity (HTM) securities | 13 | - | ( 8,833,467) | - |
| Net Cash From (Used In) Investing Activities | | 1,071,874,854 | ( 3,397,770,921) | ( 140,326,353) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net borrowings (payments) of bills payable | | 115,594,051 | ( 571,561,716) | 644,006,917 |
| Payment of cash dividends | 21 | ( 62,325,000) | - | ( 100,350,000 |
| Proceeds from share issuance | 21 | - | 3,011,730,816 | - |
| Collection of subsription receivable | 21 | - | - | 375,000,000 |
| Net Cash From Financing Activities | | 53,269,051 | 2,440,169,100 | 918,656,917 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 2,755,674,468 | 495,191,755 | 2,462,082,114 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | | | |
| Cash and other cash items | 9 | 735,667,668 | 435,898,545 | 297,076,011 |
| Due from Bangko Sentral ng Pilipinas | 9 | 3,597,209,300 | 3,073,180,153 | 1,119,319,376 |
| Due from other banks | 10 | 671,482,943 | 1,000,089,458 | 630,690,655 |
| | | 5,004,359,911 | 4,509,168,156 | 2,047,086,042 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | | | |
| Cash and other cash items | 9 | 1,174,011,464 | 735,667,668 | 435,898,545 |
| Due from Bangko Sentral ng Pilipinas | 9 | 4,554,441,827 | 3,597,209,300 | 3,073,180,153 |
| Due from other banks | 10 | 2,031,581,088 | 671,482,943 | 1,000,089,458 |
| | | P 7,760,034,379 | P 5,004,359,911 | P 4,509,168,156 |

Supplemental Information on Noncash Operating, Investing and Financing Activities

(1) On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM securities with a market value of P5,623.6 million at the date of reclassification (see Note 12).

(1) In 2014 and 2012, the Bank's stockholders approved the declaration of stock dividends on common stocks amounting to P858.3 million and P2,000.0 million, respectively. This was distributed to stockholders in the same year (see Note 21).

(3) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P284.2 million, P16.9 million and P279.0 million in 2014, 2013 and 2012 respectively (see Note 16), while transfers from loans and other receivables to other resources in 2014 and 2012 amounted to P1.0 million and P2.7 million, respectively, are disclosed in Note 17 (nil in 2013). Amounts mentioned were exclusive of gains on foreclosure amounting to P87.7 million,P1.0 million and P1.0 million in 2014, 2013 and 2012, respectively (see Note 22).

***See Notes to Financial Statements.***

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013
*(Amounts in Philippine Pesos)*

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws. On April 1, 2010, PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under Republic Act No. 8791 and 7906 and the Manual of Regulations for Banks.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.1).

As of December 31, 2014 and 2013, the Bank operates within the Philippines with 116 and 100 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

***1.2 Approval of the Financial Statements***

The financial statements of the Bank as of and for the year ended December 31, 2014 (including the comparative financial statements as of December 31, 2013 and for the years ended December 31, 2013 and 2012) were authorized for issue by the Bank's Board of Directors (BOD) on April 15, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

***2.1 Basis of Preparation of Financial Statements***

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy (BOA).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU) which is reported in its functional currency, the United States (US) dollars, are translated into Philippine peso using the closing exchange rate (for the statement of financial position accounts) and average exchange rate during the year (for profit and loss accounts).

### 2.2 *Adoption of Amended PFRS and Interpretations*

*(a) Effective in 2014 that are Relevant to the Bank*

In 2014, the Bank adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after January 1, 2014:

| | | |
|---|---|---|
| PAS 32 (Amendment) | : | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| PAS 36 (Amendment) | : | Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets |
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting |
| Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21 | : | Levies |

Discussed below are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*.

The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The Bank's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Bank's financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less costs of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Bank's non-financial assets where impairment losses have been recognized were determined based on value-in-use which have been adequately disclosed in accordance with PAS 36 (see Note 16).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. The Bank enters into transactions involving derivative instrument; however, since it does not apply hedge accounting, the amendment did not have any impact on the Bank's financial statements.

(iv) Philippine Interpretation IFRIC 21, *Levies.* This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Bank's financial statements.

*(b) Effective in 2014 that are not Relevant to the Bank*

Among the amendments to PFRS which are effective for the annual period beginning or after January 1, 2014, the Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*, in relation to the exception from consolidation for an investment entity of its investments in subsidiaries are not relevant to the Bank.

*(c) Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014, which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iv) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Bank does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(v) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but management does not expect those to have material impact on the Bank's financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

(a) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets.* The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (*Amendment*), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

(c) PFRS 8 (Amendment), Operating Segments. This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments, which have been aggregated and the economic indicators, which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

(d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

(c) PFRS 3 (Amendment), Business Combinations. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, Joint Arrangement, in the financial statements of the joint arrangement itself.

Annual Improvements to PFRS (2012-2014 Cycle)

(a) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds, which were used to determine the discount rate for post-employment benefit obligations, shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

(b) PAS 34 (Amendment), *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

(c) PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations.* The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

(d) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(e) PFRS 7 (Amendment), *Financial Instruments - Applicability of Amendments to PFRS 7 to Condensed Interim Financial Statements*. This amendment clarifies that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

***2.3 Business Combinations***

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units

are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

***2.4 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8 is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

### *2.5 Financial Instruments*

2.5.1 Financial Assets

Financial assets, which are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The foregoing categories of financial instruments of the Bank are more fully described below.

*(a) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

*(b) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables (see Note 2.5.4).

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

*(c) HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The Bank currently holds listed sovereign bonds and corporate bonds designated into this category.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired (see Note 2.5.4). Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

*(d) AFS Securities*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

### 2.5.2 Derivative Financial Instruments

The Bank uses derivative financial instruments to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.5.3 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.5.4 Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* it is probable that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

*(a) Assets Carried at Amortized Cost*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

*(b) Assets Carried at Fair Value*

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through the profit or loss.

*(c) Assets Carried at Cost*

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

### 2.5.5 Financial Liabilities

Financial liabilities include Deposit Liabilities, Bills Payable and Accrued Expenses and Other Liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank and approval by the BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

***2.6 Other Resources***

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably

***2.7 Bank Premises, Furniture, Fixtures and Equipment***

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Building | 50 years |
| Furniture, fixtures and equipment | 5-7 years |
| Transportation equipment | 5 years |

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of Bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

***2.8 Investment Properties***

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment properties are accounted for under the cost model. The cost of an investment property comprises its purchase price and directly attributable cost incurred. These include land and building acquired by the Bank from defaulting borrowers. For these assets, cost is recognized initially at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or (ii) neither the fair value of the asset received nor the asset given up is reliably measurable. The difference between the fair value of the asset received as determined by independent appraisal companies accredited by the BSP and the carrying amount of the loan settled through foreclosure of investment properties is recognized as Gain or loss on foreclosure under Miscellaneous Income or Expense account in the statement of profit or loss. Investment properties except land are depreciated over a period of five to ten years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized as Gain or loss on sale of properties under Miscellaneous Income or Expenses in the year of retirement or disposal.

***2.9 Intangible Assets***

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.16). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

### *2.10 Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.11 Equity*

Capital stocks represent the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise remeasurements of post-employment defined benefit plan and unrealized fair value gains (losses) on mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

### *2.12 Related Party Relationships and Transactions*

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.13 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs and expenses incurred and to be incurred can be measured reliably. Cost and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition, the following specific recognition criteria in the succeeding page must also be met before revenue is recognized:

2.13.1 Interest Income and Expense

Interest income and expense are recognized in the statement of profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2.13.2 Trading Gains

Trading gains are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from the mark-to-market valuation of the securities classified as FVTPL at the valuation date and gain or loss from foreign exchange trading.

2.13.3 Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.14 Leases

The Bank accounts for its leases as follows:

*(a) Bank as Lessee*

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments (net of any incentive received from a lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as insurance and repairs and maintenance, are expensed as incurred

*(b) Bank as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### 2.15 *Foreign Currency Transactions and Translation*

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

### 2.16 *Impairment of Non-financial Assets*

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, other properties held for sale (classified as Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the cash generating units' recoverable amount exceeds its carrying amount.

### 2.17 *Employee Benefits*

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing & Exchange Corporation (PDEX) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### 2.19 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares.

As of December 31, 2014 and 2013, the Bank has no convertible preferred shares (see Note 21.1).

### 2.20 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

### 2.21 Events After the End of the Reporting Period

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

(b) Impairment of AFS Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of December 31, 2014 and 2013. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Classifying of Acquired Properties and Determining Fair Value of Investment Properties and Other Properties Held-for-Sale

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(e) Distinguishing Operating and Finance Leases

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of December 31, 2014 and 2013, the Bank has determined that all its leases are operating leases (see Note 26).

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 26.

### *3.2 Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Evaluating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

The Bank reviews its AFS securities, HTM investments and loans and other receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 14. There are no impairment losses recognized on AFS securities and HTM investments in 2014, 2013 and 2012.

(b) Fair Value of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 11 and 12, respectively.

(c) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties Except Land

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 15 and 16, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2014 and 2013 is disclosed in Notes 17 and 25.

(e) Estinating Impairment Losses of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 16 and 17. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(f) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of DBO, as well as the significant assumptions used in estimating such obligation, are presented in Note 23.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

### *4.1 Risk Management*

The Bank continually advances on its risk management techniques and marry this into the overall strategic business objectives to support the growth objectives of the Bank.

PBB has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, hardened, implemented, and disseminated across all units of the Bank.

### *4.2 Enterprise Risk Management Framework*

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

### *4.3 Credit Risk*

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2014 and 2013 (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Individually impaired | | |
| Wholesale and retail trade | P 323,949 | P 750,905 |
| Real estate, renting and construction | 147,456 | 618,976 |
| Manufacturing | 64,979 | 70,357 |
| Consumption | 158,087 | 34,895 |
| Others | 620,098 | 919,905 |
| Gross amount | 1,314,569 | 2,395,038 |
| Allowance for impairment | ( 495,420) | ( 432,833) |
| Carrying amount | 819,149 | 1,962,205 |
| Collectively impaired | | |
| Wholesale and retail trade | 15,356,456 | 4,861,713 |
| Real estate, renting and construction | 3,215,895 | - |
| Manufacturing | 5,736,638 | 2,169,327 |
| Consumption | 6,597,008 | 242,250 |
| Others | 7,628,669 | 7,257,156 |
| Gross amount | 38,534,666 | 14,530,446 |
| Allowance for impairment | ( 410,800) | ( 283,500) |
| Carrying amount | 38,123,866 | 14,246,946 |
| Past due but not impaired | | |
| Carrying amount | - | 12,354 |
| Neither past due nor impaired | | |
| Carrying amount | 1,167,241 | 15,378,408 |
| Total carrying amount | P 40,110,256 | P 31,599,913 |

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Trading and Investment Securities and Due from Other Banks amounting to P7,848.9 million and P2,031.6 million, respectively, as of December, 31, 2014 and P8,834.3 million and P671.5 million, respectively, as of December 31, 2013. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral mainly consisting of real estate and chattel mortgage.

The Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated for this account.

### *4.4 Market Risk*

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

4.4.1 Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2014 and 2013 follow (amounts in thousands):

| | 2014 | | |
|---|---|---|---|
| | Foreign Currency | Philippine Peso | Total |
| **Financial Assets:** | | | |
| Cash and other cash items | P - | P 1,174,011 | P 1,174,011 |
| Due from BSP | - | 4,554,442 | 4,554,442 |
| Due from other banks | 463,362 | 1,568,219 | 2,031,581 |
| Financial assets at FVTPL | - | 171,892 | 171,892 |
| AFS securities | 1,577,834 | 137,903 | 1,715,737 |
| HTM investments | 438,030 | 5,524,940 | 5,962,970 |
| Loans and other receivables - net | 595,845 | 39,514,411 | 40,110,256 |
| Other resources | 82,080 | 274 | 82,354 |
| | P 3,157,151 | P 52,646,092 | P 55,803,243 |
| **Financial Liabilities:** | | | |
| Deposit liabilities | P 4,217,618 | P 42,401,790 | P 46,619,408 |
| Bills payable | - | 309,522 | 309,522 |
| Accrued expenses and other liabilities | 890 | 2,697,859 | 2,698,749 |
| | P 4,218,508 | P 45,409,171 | P 49,627,679 |

| | 2013 | | |
|---|---|---|---|
| | Foreign Currency | Peso | Total |
| Financial Assets: | | | |
| Cash and other cash items | P - | P 735,668 | P 735,668 |
| Due from BSP | - | 3,597,209 | 3,597,209 |
| Due from other banks | 194,092 | 477,391 | 671,483 |
| Financial assets at FVTPL | - | 917,631 | 917,631 |
| AFS securities | 1,286,940 | 6,621,110 | 7,908,050 |
| HTM investments | - | 8,656 | 8,656 |
| Loans and other receivables - net | 633,900 | 30,966,013 | 31,599,913 |
| Other resources | 57,775 | 242 | 58,017 |
| | P 2,172,707 | P 43,323,920 | P 45,496,627 |
| Financial Liabilities: | | | |
| Deposit liabilities | P 3,448,965 | P 34,433,046 | P 37,882,011 |
| Bills payable | - | 193,928 | 193,928 |
| Accrued expenses and other liabilities | 288,705 | 1,636,494 | 1,925,199 |
| | P 3,737,670 | P 36,263,468 | P 40,001,138 |

4.4.2 Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-statement of financial position items as of December 31, 2014 and 2013 based on the expected interest realization or recognition are presented below (amounts in thousands).

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less than One Month | One to Three Months | Three Months to One Year | More than One Year | Non-rate Sensitive | Total |
| Resources | | | | | | |
| Cash and other cash items | P - | P - | P - | P - | P 1,174,011 | P 1,174,011 |
| Due from BSP | - | - | - | - | 4,554,442 | 4,554,442 |
| Due from other banks | - | - | - | - | 2,031,581 | 2,031,581 |
| Trading and investment securities | - | - | 171,892 | 7,678,707 | - | 7,850,599 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loans and other receivables - net | 30,576,275 | 3,446,655 | 2,863,466 | 1,331,675 | 1,892,185 | 40,110,256 |
| Other resources | - | - | - | - | 2,133,626 | 2,133,626 |
| Total Resources | 30,576,275 | 3,446,655 | 3,035,358 | 9,010,382 | 11,785,845 | 57,854,515 |
| Liabilities and Equity | | | | | | |
| Deposit liabilities | 16,359,916 | 8,020,236 | 3,918,852 | 641,266 | 17,679,138 | 46,619,408 |
| Bills payable | - | 309,522 | - | - | - | 309,522 |
| Accrued expenses and other liabilities | - | - | - | - | 2,903,219 | 2,903,219 |
| Total Liabilities | 16,359,916 | 8,329,758 | 3,918,852 | 641,266 | 20,582,357 | 49,832,149 |
| Equity | - | - | - | - | 8,022,366 | 8,022,366 |
| Total Liabilities and Equity | 16,359,916 | 8,329,758 | 3,918,852 | 641,266 | 28,604,723 | 57,854,515 |
| On-book Gap | 14,216,359 | ( 4,883,103) | ( 883,494) | 8,369,116 | ( 16,818,878) | - |
| Cumulative On-book Gap | 14,216,359 | 9,333,256 | 8,449,762 | 16,818,878 | - | - |
| Contingent Resources | - | - | - | - | - | - |
| Contingent Liabilities | - | - | - | - | 615,085 | 615,085 |
| Off-book Gap | - | - | - | - | ( 615,085) | ( 615,085) |
| Net Periodic Gap | 14,216,359 | ( 4,883,103) | ( 883,494) | 8,369,116 | ( 17,433,961) | ( 615,085) |
| Cumulative Total Gap | P 14,216,359 | P 9,333,256 | P 8,449,762 | P 16,818,878 | (P 615,085) | P - |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than One Month | One to Three Months | Three Months to One Year | More than One Year | Non-rate Sensitive | Total |
| Resources | | | | | | |
| Cash and other cash items | P - | P - | P - | P - | P 735,668 | P 735,668 |
| Due from BSP | - | - | - | - | 3,597,209 | 3,597,209 |
| Due from other banks | - | - | - | - | 671,483 | 671,483 |
| Trading and investment securities | - | - | 18,475 | 8,815,862 | - | 8,834,337 |
| Loans and other receivables - net | 22,552,623 | 3,324,749 | 2,477,044 | 2,387,329 | 858,168 | 31,599,913 |
| Other resources | - | - | - | - | 1,719,019 | 1,719,019 |
| Total Resources | 22,552,623 | 3,324,749 | 2,495,519 | 11,203,191 | 7,581,547 | 47,157,629 |
| Liabilities and Equity | | | | | | |
| Deposit liabilities | 6,590,754 | 13,363,263 | 4,656,937 | 603,577 | 12,667,479 | 37,882,011 |
| Bills payable | 164,690 | 29,238 | - | - | - | 193,928 |
| Accrued expenses and other liabilities | - | - | - | - | 2,055,211 | 2,055,211 |
| Total Liabilities | 6,755,444 | 13,392,501 | 4,656,937 | 603,578 | 14,722,690 | 40,131,150 |
| Equity | - | - | - | - | 7,026,479 | 7,026,479 |
| Total Liabilities and Equity | 6,755,444 | 13,392,501 | 4,656,937 | 603,578 | 21,749,169 | 47,157,629 |
| On-book Gap | 15,797,179 | ( 10,067,752) | ( 2,161,418) | 10,599,613 | ( 14,167,622) | - |
| Cumulative On-book Gap | 15,797,179 | 5,729,427 | 3,568,009 | 14,167,622 | - | - |
| Contingent Resources | - | - | - | - | - | - |
| Contingent Liabilities | - | - | - | - | 1,349,359 | 1,349,359 |
| Off-book Gap | - | - | - | - | ( 1,349,359) | ( 1,349,359) |
| Net Periodic Gap | 15,797,179 | ( 10,067,752) | ( 2,161,418) | 10,599,613 | ( 15,516,981) | ( 1,349,359) |
| Cumulative Total Gap | P 15,797,179 | P 5,729,427 | P 3,568,009 | P 14,167,622 | (P 1,349,359) | P - |

### 4.4.3 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio (iii) off-market rate limits on per instrument type; and (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The table below shows the VaR position of the Bank's financial assets at FVTPL and AFS securities portfolios as at December 31, 2014 and 2013.

| VaR | | 2014 | | 2013 |
|---|---|---|---|---|
| Financial assets at FVTPL | P | 6,214 | P | 14,852 |
| AFS securities | | 186,915 | | 197,740 |

The table below shows the VaR ranges of the Bank's financial assets at FVTPL and AFS securities portfolios as at December 31, 2014 and 2013.

| VaR | | 2014 | | 2013 |
|---|---|---|---|---|
| Minimum | P | 5,091 | P | - |

| | | |
|---|---|---|
| Maximum | 152,602 | 37,127 |
| Average | 23,681 | 13,409 |

Stress test on the December 31, 2014 and 2013 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

**2014**

| Currency | Current Market Value | Sensitivities +100 bps | Sensitivities +300 bps | Sensitivities +500 bps |
|---|---|---|---|---|
| Philippine peso | P 309,794,253 | (P 24,635,885) | (P 73,907,654) | (P 123,179,423) |
| US dollar | 1,577,834,272 | ( 166,590,526) | ( 499,771,577) | ( 832,952,629) |
| Total | P 1,887,628,525 | (P 191,226,411) | (P 573,679,231) | (P 956,132,052) |

**2013**

| Currency | Current Market Value | Sensitivities +100 bps | Sensitivities +300 bps | Sensitivities +500 bps |
|---|---|---|---|---|
| Philippine peso | P 6,443,905,313 | (P 793,397,339) | (P 2,380,192,018) | (P 3,966,986,687) |
| US dollar | 2,381,775,407 | ( 299,110,963) | ( 897,332,890) | ( 1,495,554,817) |
| Total | P 8,825,680,720 | (P 1,092,508,302) | (P 3,277,524,908) | (P 5,462,541,514) |

### 4.4.4 Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of December 31, 2014 and 2013 is presented below (amounts in thousands).

**2014**

| | Less than One Month | One to Three Months | Three Months to One Year | More than One Year | Total |
|---|---|---|---|---|---|
| Resources: | | | | | |
| Cash and other cash items | P 1,174,011 | P - | P - | P - | P 1,174,011 |
| Due from BSP | 4,554,442 | - | - | - | 4,554,442 |
| Due from other banks | 2,031,581 | - | - | - | 2,031,581 |
| Trading and investment securities | - | | 171,892 | 7,678,707 | 7,850,599 |
| Loans and other receivables | - | 18,259,698 | 11,241,422 | 10,609,136 | 40,110,256 |
| Other resources | - | 598,870 | 172,520 | 1,362,236 | 2,133,626 |
| Total Resources (balance carried forward) | P7,760,034 | P 18,858,568 | P 11,585,834 | P 19,650,079 | P 57,854,515 |

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risks.

The following are the risk-based capital adequacy of the Bank for the year ending December 31, 2014 and 2013 (amounts in million):

| | | **2014** | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Tier 1 Capital | **P** | **8,273** | P | 8,099 | P | 4,080 |
| Tier 2 Capital | | **383** | | 284 | | 180 |
| Total Regulatory Capital | | **8,656** | | 8,383 | | 4,260 |
| Deductions | | **-** | | (258) | | (226) |
| **TOTAL QUALIFYING CAPITAL** | **P** | **8,656** | **P** | **8,125** | **P** | **4,034** |
| Tier 1 Capital | **P** | **8,273** | P | 8,099 | P | 4,080 |
| Tier 1 Capital Deductions | | **-** | | (258) | | (226) |
| **NET TIER 1 CAPITAL** | **P** | **8,273** | **P** | **7,841** | **P** | **3,854** |
| Risk Weighted Assets | | | | | | |
| Credit Risk Weighted Assets | **P** | **30,296** | P | 31,252 | P | 20,673 |
| Operational Risk Weighted Assets | | **3,233** | | 2,155 | | 717 |
| Market Risk Weighted Assets | | **139** | | 829 | | - |
| **TOTAL RISK-WEIGHTED ASSETS** | **P** | **41,667** | **P** | **34,236** | **P** | **21,390** |
| Capital Ratios: | | | | | | |
| Total qualifying capital expressed as percentage of total risk-weighted assets | | **20.77%** | | 23.73% | | 18.86% |
| Net Tier 1 capital expressed as percentage of total risk-weighted assets | | **19.85%** | | 22.90% | | 18.02% |
| Capital Charge: | | | | | | |
| Credit Risk | | **7,956** | | 7,417 | | 3,899 |
| Operational Risk | | **672** | | 511 | | 135 |
| Market Risk | | **28** | | 197 | | - |

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

| | | | | | |
|---|---|---|---|---|---|
| Capital Funds | - | - | - | 7,026,479 | 7,026,479 |
| Total Liabilities and Capital Funds | 17,214,451 | 5,656,790 | 1,509,660 | 22,776,728 | 47,157,629 |
| On-book Gap | ( 4,904,061) | 1,484,776 | 9,311,176 | ( 5,891,891) | - |
| Cumulative On-book Gap | ( 4,904,061) | ( 3,419,285) | 5,891,891 | - | - |
| Contingent Liabilities | 76,467 | 396,998 | 171,886 | 47,064 | 692,415 |
| Off-book Gap | ( 76,467) | ( 396,998) | ( 171,886) | ( 47,064) | ( 692,415) |
| Net Periodic Gap | ( 4,980,528) | 1,087,778 | 9,139,290 | ( 5,938,955) | ( 692,415) |
| Cumulative Total Gap | (P4,980,528) | (P3,892,750) | P 5,246,540 | (P 692,415) | P - |

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the Risk Oversight Committee for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly Asset and Liability Committee meetings.

## 5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of PBB should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risks.

The following are the risk-based capital adequacy of the Bank for the year ending December 31, 2014 and 2013 (amounts in million):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Tier 1 Capital | P 8,275 | P 8,099 | P 4,080 |
| Tier 2 Capital | 383 | 284 | 180 |
| Total Regulatory Capital | 8,656 | 8,383 | 4,26 |
| Deductions | - | ( 258) | ( 226) |
| Total Qualifying Capital | P 8,656 | P 8,125 | P 4,034 |
| Tier 1 Capital | P 8,275 | P 8,099 | P 4,080 |
| Tier 1 Capital Deductions | - | ( 258) | ( 226) |
| Net Tier 1 Capital | P 8,275 | P 7,841 | P 3,854 |
| Risk Weighted Assets | | | |
| Credit Risk Weighted Assets | P 30,296 | P 31,252 | P 20,673 |
| Operational Risk Weighted Assets | 3,233 | 2,155 | 717 |
| Market Risk Weighted Assets | 139 | 829 | - |
| Total Risk-Weighted Assets | P 41,667 | P 34,236 | P 21,390 |
| Capital ratios: | | | |
| Total qualifying capital expressed as percentage of total risk-weighted assets | 20.8% | 26.0% | 18.9% |
| Net Tier 1 capital expressed as percentage of total risk-weighted assets | 19.9% | 22.9% | 18.0% |

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.
A Bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(b) Investments in debt capital instruments of unconsolidated subsidiary banks;

(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

(d) Reciprocal investments in equity of other banks/enterprises; and

(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2014 and 2013, the Bank has no exposure in item a to item e above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2014 and 2013, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). The Bank is complaint with the P2,000.0 million and P650.0 minimum capital requirement as of December 31, 2014 and 2013 of the BSP.

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities in the statement of financial position:

| | December 31, 2014 | |
|---|---|---|
| | Carrying Values | Fair Value |
| Financial Assets | | |
| Loans and Receivables: | | |
| Cash and other cash items | P 1,174,011,464 | P 1,174,011,464 |
| Due from BSP | 4,554,441,827 | 4,554,441,827 |
| Due from other banks | 2,031,581,088 | 2,031,581,088 |
| Loans and other receivables | 40,110,256,377 | 40,110,256,377 |
| Other resources | 82,353,952 | 82,353,952 |
| Financial assets at FVTPL | 171,891,804 | 171,891,804 |
| AFS securities | 1,715,736,721 | 1,715,736,721 |
| HTM investments | 5,962,970,252 | 6,119,200,174 |

| | December 31, 2014 | |
|---|---|---|
| | Carrying Values | Fair Value |
| Financial Liabilities | | |
| At amortized cost: | | |
| Deposit liabilities | P 46,619,407,626 | P 46,619,407,626 |
| Bills payable | 309,521,852 | 309,521,852 |
| Accrued expenses and other liabilities | 2,698,519,743 | 2,698,519,743 |
| At fair value – | | |
| Accrued expenses and other liabilities | | |
| derivative liabilities | 228,814 | 228,814 |

| | December 31, 2014 | |
|---|---|---|
| | Carrying Values | Fair Value |
| Financial Assets: | | |
| Loans and Receivables: | | |
| Cash and other cash items | P 735,667,668 | P 735,667,668 |
| Due from BSP | 3,597,209,300 | 3,597,209,300 |
| Due from other banks | 671,482,943 | 671,482,943 |

| | | | | |
|---|---|---|---|---|
| Loans and other receivables | | 31,599,913,333 | | 31,599,913,333 |
| Other resources | | 58,017,157 | | 58,017,157 |
| Financial assets at FVTPL | | 917,630,877 | | 917,630,877 |
| AFS securities | | 7,908,049,843 | | 7,908,049,843 |
| HTM investments | | 8,656,409 | | 8,607,924 |
| Financial Liabilities: | | | | |
| At amortized cost: | | | | |
| Deposit liabilities | P | 37,882,010,744 | P | 37,882,010,744 |
| Bills payable | | 193,927,801 | | 193,927,801 |
| Accrued expenses and other liabilities | | 1,924,577,848 | | 1,924,577,848 |
| At fair value – | | | | |
| Accrued expenses and other liabilities | | | | |
| derivative liabilities | | 621,201 | | 621,201 |

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets of the Bank with amounts presented in the statements of financial position as of December 31, 2014 and 2013 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Financial assets | Financial liabilities available for set-off | Collateral received | Net Amount |
| HTM Investments | P 411 | P 300 | P - | P 111 |
| Loans and receivables | | | | |
| Receivables from customers | 2,311 | 9 | 2,301 | 1 |
| | P 2,722 | P 309 | P 2,301 | P 112 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Financial assets | Financial liabilities available for set-off | Collateral received | Net Amount |
| Loans and receivables | | | | |
| Receivables from customers | P 2,507 | P 194 | P 2,277 | P 36 |

The following financial liabilities with net amounts presented in the statements of financial position of the Bank are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Financial assets | Financial liabilities available for set-off | Collateral received | Net Amount |

| | Financial assets | Financial liabilities available for set-off | Collateral received | Net Amount |
|---|---|---|---|---|
| Deposit liabilities | P 2,301 | P 2,301 | P - | P - |
| Bills payable | 309 | - | 309 | - |
| | P 2,610 | P 2,301 | P 309 | P - |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Financial assets | Financial liabilities available for set-off | Collateral received | Net Amount |
| Deposit liabilities | P 2,277 | P 2,277 | P - | P - |
| Bills payable | 194 | - | 194 | - |
| | P 2,471 | P 2,277 | P 194 | P - |

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 7.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### 7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis as of December 31, 2014 and 2013 (amounts in millions).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2014 | | | | |
| Financial assets at FVTPL | | | | |
| Government bonds | P - | P 172 | P - | P 172 |
| AFS securities | | | | |
| Government debt securities | 880 | 93 | - | 973 |
| Other debt securities | 741 | - | - | 741 |
| | 1,621 | 93 | - | 1,714 |
| | P 1,793 | P 93 | P - | P 1,886 |
| December 31, 2013 | | | | |
| Financial assets at FVTPL | | | | |
| Government bonds | P 918 | P - | P - | P 918 |
| AFS securities | | | | |
| Government debt securities | - | 7,802 | - | 7,802 |
| | P 918 | P 7,802 | P - | P 8,720 |

The Bank has golf club shares amounting to P1.7 million as of December 31, 2014 and are presented as part of AFS Securities in the 2014 statement of financial position. This is stated at cost as the carrying amounts of these financial instruments approximate their fair values.

As of December 31, 2014 and 2013, the Bank has derivative liabilities classified under Accrued Expenses and Other Liabilities in the statements of financial position amounting to P0.2 million and P0.6 million, respectively. Derivative liabilities are categorized within Level 3, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

(i) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEX which is computed based on the weighted average of done or executed deals (Level 1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2014 | | | | |
| Resources: | | | | |
| Cash and other cash items | P 1,174 | P - | P - | P 1,174 |
| Due from BSP | 4,554 | - | - | 4,554 |
| Due from other banks | 2,032 | - | - | 2,032 |
| HTM investments | 2,448 | 3,671 | - | 6,119 |
| Loans and other receivable | - | - | 40,110 | 40,110 |
| Other resources | - | - | 82 | 82 |
| | P 10,208 | P 3,671 | P 40,192 | P 54,071 |
| Liabilities: | | | | |
| Deposit liabilities | P - | P - | P 46,619 | P 46,619 |
| Bills payable | - | - | 310 | 310 |
| Other liabilities | - | - | 2,699 | 2,699 |
| | P - | P - | P 49,628 | P 49,628 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2013 | | | | |
| Resources: | | | | |
| Cash and other cash items | P 736 | P - | P - | P 736 |
| Due from BSP | 3,597 | - | - | 3,597 |
| Due from other banks | 671 | - | - | 671 |
| HTM investments | - | 9 | - | 9 |
| Loans and other receivable | - | - | 31,600 | 31,600 |
| Other resources | - | - | 58 | 58 |
| | P 5,004 | P 9 | P 31,658 | P 36,671 |
| Liabilities: | | | | |
| Deposit liabilities | P - | P - | P 37,882 | P 37,882 |
| Bills payable | - | - | 194 | 194 |
| Other liabilities | - | - | 1,925 | 1,925 |
| | P - | P - | P 40,001 | P 40,001 |

For financial assets and financial liabilities, other than HTM investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investments consist of government securities issued by the Philippine government with fair value determined based on prices quoted in PDEX consistent with BSP Circular No. 813 (see Note 7.2).

The fair values of financial assets and financial liabilities not presented at fair value in the statement of financial position are determined as follows:

(i) Due from BSP and other banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) Loans and other receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(iii) Other resources

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statement of financial position are considered to be reasonable approximation of their fair values.

(iv) Deposits and bills payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(v) Accrued expenses and other liabilities

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

7.4 Fair Value Measurement for Non-financial Assets

The table below shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2014 and 2013 (amounts in thousands).

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2014 | | | | |
| Land | P - | P - | P 658,820 | P 658,820 |
| Building and improvements | | - | 140,127 | 140,127 |
| | P - | P - | P 798,947 | P 798,947 |
| December 31, 2013 | | | | |
| Land | P - | P - | P 376,208 | P 376,208 |

| | | | | |
|---|---|---|---|---|
| Building and improvements | | - | 145,300 | 145,300 |
| | P - | P - | P 521,508 | P 521,508 |

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use.

The fair value of these investment properties were determined based on the following approaches:

*(i) Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(ii) Fair Value Measure for Building and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2014 and 2013.

## 8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

*(a)* ***Consumer banking*** – includes auto financing, home financing, and salary or personal loans;

*(b)* ***Corporate banking*** – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

*(c)* ***Treasury Operations*** – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2014, 2013 and 2012 follow (amounts in millions):

| | Corporate Banking | Consumer Banking | Treasury Operations | Total |
|---|---|---|---|---|
| December 31, 2014 | | | | |
| Statement of Profit or Loss | | | | |
| Net interest income | P 1,573 | P 144 | P 518 | P 2,235 |
| Non-interest income | 271 | - | 35 | 306 |
| Total income (after interest expense) | 1,844 | 144 | 553 | 2,541 |
| Operating expenses | ( 1,304) | ( 61) | ( 398) | ( 1,763) |
| Pre-tax profit | 540 | 83 | 155 | 778 |
| Net profit | P 378 | P 55 | P 103 | P 536 |
| Statement of Financial Position | | | | |
| Total Resources | | | | |
| Segment assets | P 39,321 | P 2,229 | P 15,968 | P 57,518 |
| Intangible assets | 51 | - | - | 51 |
| Deferred tax assets | 286 | - | - | 286 |
| | P 39,658 | P 2,229 | P 15,968 | P 57,855 |
| Total Liabilities | P 35,310 | P 1,918 | P 12,604 | P 49,832 |
| Other segment information | | | | |
| Depreciation and amortization | P 88 | P 5 | P 32 | P 125 |

| | Corporate Banking | Consumer Banking | Treasury Operations | Total |
|---|---|---|---|---|
| Capital expenditures | P 27 | P 2 | P 10 | P 39 |

| | Corporate Banking | Consumer Banking | Treasury Operations | Total |
|---|---|---|---|---|
| December 31, 2013 | | | | |
| Statement of Profit or Loss | | | | |
| Net interest income | P 1,343 | P 126 | P 263 | P 1,732 |
| Non-interest income | 112 | - | 817 | 929 |
| Total income (after interest expense) | 1,455 | 126 | 1,080 | 2,661 |
| Operating expenses | ( 1,069) | ( 46) | ( 418) | ( 1,533) |
| Pre-tax profit | 386 | 80 | 662 | 1,128 |
| Net profit | P 344 | P 71 | P 589 | P 1,004 |
| December 31, 2013 | | | | |
| Statement of Financial Position | | | | |
| Total Resources | | | | |
| Segment assets | P 30,861 | P 1,765 | P 14,231 | P 46,857 |
| Intangible assets | 51 | - | - | 51 |
| Deferred tax assets | 250 | - | - | 250 |
| | P 31,162 | P 1,765 | P 14,231 | P 47,158 |
| Total Liabilities | P 26,382 | P 1,371 | P 12,378 | P 40,131 |
| Other segment information | | | | |
| Depreciation and amortization | P 69 | P 4 | P 33 | P 106 |
| Capital expenditures | P 52 | P 3 | P 24 | P 79 |
| December 31, 2012 | | | | |
| Statement of Profit or Loss | | | | |
| Net interest income | P 824 | P 76 | P 172 | P 1,072 |
| Non-interest income | 172 | - | 713 | 885 |
| Total income (after interest expense) | 996 | 76 | 885 | 1,957 |
| Operating expenses | ( 744) | ( 38) | ( 463) | ( 1,245) |
| Pre-tax profit | 252 | 38 | 422 | 712 |
| Net profit | P 232 | P 35 | P 378 | P 655 |
| Other segment information | | | | |
| Depreciation and amortization | P 44 | P 3 | P 31 | P 78 |
| Capital expenditures | P 71 | P 4 | P 49 | P 284 |

9. CASH AND DUE FROM BSP

This account is composed of the following:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Cash and other cash items | P | 1,174,011,464 | P | 735,667,668 |
| Due from BSP | | | | |
| Mandatory reserves | | 3,414,441,827 | | 2,157,209,300 |
| Other than mandatory reserves | | 1,140,000,000 | | 1,440,000,000 |
| | | 4,554,441,827 | | 3,597,209,300 |
| | P | 5,728,453,291 | P | 4,332,876,968 |

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP bears annual effective interest rates ranging from 0.0% to 2.5% in 2014, 0.0% to 2.0% in 2013 and 0.0% to 4.1% in 2012, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P31.2 million, P43.8 million and P14.5 million in 2014, 2013 and 2012, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Local banks | P | 1,493,241,853 | P | 406,812,138 |
| Foreign banks | | 538,339,235 | | 264,670,805 |
| | P | 2,031,581,088 | P | 671,482,943 |

Interest rates on these deposits range from 0.25% to 1.75%, 0.25% to 1.90% and 0.01% to 2.75% per annum in 2014, 2013 and 2012, respectively. Total interest income earned amounted to P6.0 million, P1.7 million and P8.0 million in 2014, 2013 and 2012, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

| | | 2014 | | 2013 |
|---|---|---|---|---|
| US dollars | P | 463,361,884 | P | 194,091,704 |
| Philippine pesos | | 1,568,219,204 | | 477,391,239 |
| | P | 2,031,581,088 | P | 671,482,943 |

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P171.9 million and P917.6

million as of December 31, 2014 and 2013, respectively. Interest rates on these investments is at 5.9% in 2014 and interest ranging from 5.9% to 6.3% and 5.8% to 8.1% per annum in 2013 and 2012, respectively. Total interest income earned amounted to P44.3 million, P26.6 million and P93.1 million in 2014, 2013 and 2012, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related unrealized fair value gains (loss), presented as part of Trading Gains - net in the statements of profit or loss, amounted to P17.1 million and (P19.4 million) in 2014 and 2013, respectively (nil in 2012). Realized trading gains (loss) amounting to P2.7 million, P94.2 million and P91.5 million, respectively, in 2014, 2013 and 2012 for held-for-trading government securities, and P3.6 million and (P0.1 million), respectively in 2014 and 2013 (nil in 2012) for spot transactions are presented as part of Trading Gains - net in the statements of profit or loss.

## 12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

| | 2014 | 2013 |
|---|---|---|
| Corporate bonds | P 972,817,054 | P - |
| Government securities | 741,219,667 | 7,908,049,843 |
| Equity securities | 1,700,000 | - |
| | P 1,715,736,721 | P 7,908,049,843 |

As to currency, this account consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Foreign currencies | P 1,577,834,272 | P 1,286,939,480 |
| Philippine pesos | 137,902,449 | 6,621,110,363 |
| | P 1,715,736,721 | P 7,908,049,843 |

Changes in the AFS securities are summarized below.

| | Note | 2014 | 2013 |
|---|---|---|---|
| Balance at beginning of year | | P 7,908,049,843 | P 5,784,536,589 |
| Additions | | 443,590,778 | 18,912,353,899 |
| Reclassification | 13 | ( 5,623,596,459) | - |
| Disposals | | ( 1,172,147,778) | ( 15,233,450,631) |
| Fair value gains (losses) | | 124,563,684 | ( 1,042,090,203) |
| Foreign currency revaluation | | 10,487,626 | 1,519,715,017 |
| Amortization of discount (premium) | | 24,789,027 | ( 2,033,014,828) |
| Balance at end of year | | P 1,715,736,721 | P 7,908,049,843 |

The reconciliation of unrealized fair value gains (losses) on AFS securities reported under equity is shown below.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | (P 1,043,281,000) | P 322,575,800 | P 521,895,286 |
| Changes on unrealized fair value gains (losses) during the year: | | | |
| Fair value gains (losses) during the year | 124,563,684 | ( 1,042,090,203) | 185,130,710 |
| Fair value loss on AFS securities | | | |

| | | | |
|---|---|---|---|
| reclassified to HTM investments in 2014 | 511,641,246 | - | - |
| Amortization of fair value gains on reclassified AFS securities in 2012 | - | ( 178,689) | ( 206,786) |
| Realized fair value losses (gains) on AFS securities disposed during the year - net | 393,988,832 | ( 323,587,908) | ( 384,243,410) |
| | 1,030,193,762 | ( 1,365,856,800) | ( 199,319,486) |
| Changes on unrealized fair value losses on reclassified securities during the year: | | | |
| Fair value loss on AFS securities reclassified to HTM investments in 2014 | ( 511,641,246) | - | - |
| Amortization of fair value loss on reclassified securities in 2014 | 4,986,463 | - | - |
| | ( 506,654,783) | - | - |
| Balance at end of year | (P 519,742,021) | (P 1,043,281,000) | P 322,575,800 |

AFS securities earn interest ranging from 3.5% to 9.2%, 4.3% to 9.1% and 4.3% to 9.1% per annum in 2014, 2013 and 2012, respectively. Total interest income earned amounted to P215.0 million, P341.7 million and P253.9 million in 2014, 2013 and 2012, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss. Fair value gains recycled to profit or loss from equity resulting from the sale of AFS securities amounted to a gain of P323.5 million, P323.8 million and P384.5 million in 2014, 2013 and 2012, respectively. These are included as part of Trading Gains – net in the statements of profit or loss. Realized trading gains, presented as part of Trading Gains – net in the 2014, 2013 and 2012 statements of profit or loss, amounted to P16.4 million, P741.9 million and P621.5 million, respectively.

The fair values of AFS securities have been determined directly by reference to published prices in an active market.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with a face value of P23.1 million and P38.0 million as of December 31, 2014 and 2013, respectively, are deposited with the BSP (see Note 27).

## 13. HELD-TO-MATURITY INVESTMENTS

As of December 31, 2014 and 2013, this account is composed of local and foreign government debt securities which have remaining maturities of beyond one year.

As to currency, this account consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Foreign currencies | P 5,524,940,293 | P 8,656,409 |
| Philippine pesos | 438,029,959 | - |
| | P 5,962,970,252 | P 8,656,409 |

Changes in the HTM investments are summarized below.

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | P 8,656,409 | P - |
| Reclassification | 5,623,596,459 | - |
| Amortization of discount (premium) | 330,612,497 | ( 177,058) |
| Foreign currency revaluation | 104,887 | - |
| Additions | - | 8,833,467 |
| Balance at end of year | P 5,962,970,252 | P 8,656,409 |

Effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2014 and 7.0% per annum in 2013. The Bank's interest income from these investments amounted to P172.5 million and P0.3 million in 2014 and 2013, respectively, shown as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM investments with a market value of P5,623.6 million at the date of reclassification and with annual effective interest rates of the reclassified securities ranging from 5.3% to 8.1% (see Note 12). The unrealized fair value loss on the reclassified securities amounting to P511.6 million is retained in other comprehensive income and will be amortized over the remaining life of the HTM investments or recognized to profit or loss upon sale, whichever comes earlier. The amortization of fair value loss amounted to P5.0 million and is presented as part of Trading Gains – net in the 2014 statement of profit or loss. As of December 31, 2014, the book value and unamortized fair value losses related to these debt securities amount to P5,954.6 million and P506.7 million, respectively.

HTM securities amounting P300.0 million as of December 31, 2014 (nil as of December 31, 2013) are pledged as collaterals to secure borrowings under repurchase agreement (see Note 19).

## 14. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following as of December 31:

| | 2014 | 2013 |
|---|---|---|
| Receivables from customers: | | |
| Loans and discounts | P 33,824,150,253 | P 26,075,818,474 |
| Bills purchased | 1,703,226,381 | 1,028,574,269 |
| Customers' liabilities on acceptances, letters of credit and trust receipts | 3,945,258,885 | 3,574,029,893 |
| | 39,472,635,519 | 30,678,422,636 |
| Unearned discount | ( 104,429,610) | ( 89,802,180) |
| | 39,368,205,909 | 30,588,620,456 |
| Other receivables: | | |
| Unquoted debt securities | 1,242,808,397 | 1,246,734,856 |
| Accrued interest receivable | 153,712,571 | 162,292,562 |
| Sales contracts receivable | 118,337,176 | 124,931,623 |
| Accounts receivable | 76,537,289 | 131,653,338 |
| Deficiency claims receivable - net | 56,874,809 | 61,234,319 |
| Others | - | 778,826 |
| | 1,648,270,242 | 1,727,625,524 |
| | 41,016,476,151 | 32,316,245,980 |
| Allowance for impairment losses | ( 906,219,774) | ( 716,332,647) |
| | P 40,110,256,377 | P 31,599,913,333 |

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of December 31, 2014 and 2013, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. Management believes that recoverability of the final tax on PEACe bonds continues to be probable.

As of December 31, 2014 and 2013, non-performing loans of the Bank amount to P601.5 million and P728.2 million, respectively, while restructured loans amount to P114.3 million and P120.6 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Within one year | P 29,174,034 | P 22,269,479 |
| Beyond one year | 10,298,602 | 8,408,944 |
| | P 39,472,636 | P 30,678,423 |

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Wholesale and retail trade | P 14,426,930 | P 10,872,993 |
| Administrative and support services | 7,712,045 | 12,776,489 |
| Construction | 7,206,797 | 834,941 |
| Manufacturing | 6,108,277 | 4,822,980 |
| Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use | 2,051,399 | - |
| Transportation and storage | 1,067,807 | 903,219 |
| Electricity, gas, steam and air-conditioning supply | 463,065 | - |
| Agriculture, fishery and forestry | 336,316 | 443,801 |
| Mining and quarying | 100,000 | 24,000 |
| | P 39,472,636 | P 30,678,423 |

As to security, loans and discounts are classified into the following (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Secured: | | |
| Real estate mortgage | P 12,329,560 | P 8,671,919 |
| Deposit hold-out | 2,300,522 | 2,276,562 |
| Chattel mortgage | 1,933,400 | 1,741,714 |
| Others | 622,833 | 1,389,941 |
| Unsecured | 22,286,321 | 16,598,287 |
| | P 39,472,636 | P 30,678,423 |

The changes in the allowance for impairment losses on loans and other receivables are summarized below.

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | P 716,332,647 | P 557,614,114 |
| Provision for impairment losses | 189,887,127 | 168,193,789 |
| Reclassified to Investment Property | - | ( 9,475,256 ) |
| Balance at end of year | P 906,219,774 | P 716,332,647 |

Of the total loans and discounts of the Bank as of December 31, 2014 and 2013, 98.4% and 88.1%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 1.3% to 22.0% in 2014 and 2.0% to 22.0% in 2013 and 2012, while the annual effective interest rates of interest-bearing other receivables range from 4.0% to 10.4% in 2014, 2013 and 2012. Total interest income earned from loans and discounts amounted to P2,164.8 million, P1,627.7 million and P1,203.8 million in 2014, 2013 and 2012, respectively, while total interest income earned from interest-bearing other receivables amounted to P201.5 million, P189.9 million and P133.6 million in 2014, 2013 and 2012, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables amounting to P10.0 million and P230.3 million as of December 31, 2014 and 2013, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 19).

Realized trading gains on sale of unquoted debt securities, presented as part of Trading Gains – net in the 2013 statement of profit or loss, amounted to P0.1 million (nil in 2014 and 2012 ).

## 15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2014 and 2013 are shown below.

| | Land | Building | Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improve-ments | Total |
|---|---|---|---|---|---|---|
| December 31, 2014 | | | | | | |
| Cost | P 84,327,556 | P110,257,855 | P299,261,604 | P120,355,469 | P409,639,438 | P1,023,841,922 |
| Accumulated depreciation and amortization | - | ( 32,760,656) | ( 179,720,221) | ( 59,527,339) | ( 236,067,230) | ( 508,075,446) |
| Net carrying amount | P 84,327,556 | P 77,497,199 | P 119,541,383 | P 60,828,130 | P173,572,208 | P 515,766,476 |
| December 31, 2013 | | | | | | |
| Cost | P 77,747,556 | P100,487,964 | P257,715,168 | P108,189,288 | P259,172,230 | P803,312,206 |
| Accumulated depreciation and amortization | - | ( 29,654,000) | ( 146,850,837) | ( 48,865,508) | ( 101,104,229) | ( 326,474,574) |
| Net carrying amount | P 77,747,556 | P 70,833,964 | P 110,864,331 | P 59,323,780 | P 158,068,001 | P476,837,632 |
| January 1, 2013 | | | | | | |
| Cost | P 77,747,556 | P 95,129,253 | P203,109,351 | P 90,288,943 | P203,031,977 | P 669,307,080 |
| Accumulated depreciation and amortization | - | ( 26,939,12) | ( 118,350,928) | ( 32,754,613) | ( 92,767,261) | ( 270,811,923) |
| Net carrying amount | P 77,747,556 | P 68,190,132 | P 84,758,423 | P 57,534,330 | P110,264,716 | P398,495,157 |

A reconciliation of the carrying amounts at the beginning and end of 2014 and 2013 is shown below.

| | Land | Building | Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improve-ments | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014, net of accumulated | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| depreciation and amortization | P 77,747,556 | P 70,833,964 | P110,864,331 | P 59,323,780 | P 158,068,001 | P476,837,632 |
| Additions | 6,580,000 | 9,759,600 | 44,072,714 | 23,807,897 | 65,152,889 | 149,373,100 |
| Disposals | - | - | - | ( 268,663) | - | ( 268,663) |
| Depreciation and amortization charges for the year | - | ( 3,096,365) | ( 35,395,662) | ( 22,034,884) | ( 9,648,682) | ( 110,175,593) |
| Balance at December 31, 2014, net of accumulated depreciation and amortization | P 84,327,556 | P 77,497,199 | P119,541,383 | P 60,828,130 | P173,572,208 | P515,766,476 |
| Balance at January 1, 2013, net of accumulated depreciation and amortization | P77,747,556 | P 68,190,132 | P 84,758,423 | P 57,534,330 | P 110,264,716 | P398,495,157 |
| Additions | - | 5,358,710 | 56,286,046 | 23,456,530 | 84,271,523 | 169,372,809 |
| Disposals | - | - | - | ( 2,214,982) | - | ( 2,214,982) |
| Depreciation and amortization charges for the year | - | ( 2,717,994) | ( 30,180,138) | ( 19,448,982) | ( 36,468,238) | ( 88,815,352) |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | P 77,747,556 | P 70,833,964 | P110,864,331 | P 59,323,780 | P158,068,001 | P476,837,632 |

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2014 and 2013, the Bank has satisfactorily complied with this requirement.

As of December 31, 2014 and 2013, the Bank's fully depreciated bank premises, furniture, fixtures and equipment still in use in operations amounted to P183.6 million and P114.6 million, respectively.

## 16. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation, except for a certain property, which was leased out to a third party. Rental income from investment properties amounted to P1.4 million, presented as part of Others under Miscellaneous Income in the 2012 statement of profit or loss as disclosed in Note 22 (nil in 2014 and 2013). The related real estate taxes on investment properties amounting to P0.1 million for the year ended December 31, 2012 were recognized as a part of Taxes and licences under Other Expenses in the 2012 statement of profit or loss (nil in 2014 and 2013).

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2014 and 2013 are shown below.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| December 31, 2014 | | | |
| Cost | P 651,957,954 | P 127,493,252 | P 779,451,206 |
| Accumulated depreciation | - | ( 44,970,629) | ( 44,970,629) |
| Allowance for impairment | ( 26,551,861) | ( 2,192,994) | ( 28,744,855) |
| Net carrying amount | P 625,406,093 | P 80,329,629 | P 705,735,722 |
| December 31, 2013 | | | |
| Cost | P 376,208,090 | P 145,300,691 | P 521,508,781 |
| Accumulated depreciation | - | ( 47,103,372) | ( 47,103,372) |
| Allowance for impairment | ( 26,551,861) | ( 2,192,994) | ( 28,744,855) |
| Net carrying amount | P 349,656,229 | P 96,004,325 | P 445,660,554 |
| January 1, 2013 | | | |
| Cost | P 460,377,978 | P 153,493,072 | P 613,871,050 |
| Accumulated depreciation | - | ( 33,866,275) | ( 33,866,275) |
| Allowance for impairment | ( 20,849,654) | ( 9,917,701) | ( 30,767,355) |
| Net carrying amount | P 439,528,324 | P 109,709,096 | P 549,237,420 |

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2014 and 2013 is shown below.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| Balance at January 1, 2014, net of accumulated depreciation and impairment | P 349,656,229 | P 96,004,325 | P 445,660,554 |
| Additions | 356,685,050 | 15,176,503 | 371,861,553 |
| Disposals | ( 80,935,186) | ( 10,100,171) | ( 91,035,357) |
| Reclassification | | ( 8,304,606) | ( 8,304,606 |
| Depreciation for the year | - | ( 12,446,422) | ( 12,446,422) |
| Balance at December 31, 2014, net of accumulated depreciation and impairment | P 625,406,093 | P 80,329,629 | P 705,735,722 |
| Balance at January 1, 2013, net of accumulated depreciation and impairment | P 439,528,324 | P 109,709,096 | P 549,237,420 |
| Additions | 6,001,700 | 17,080,498 | 23,082,198 |
| Disposals | ( 90,171,588) | ( 21,611,329) | ( 111,782,917) |

| | | | |
|---|---|---|---|
| Impairment loss for the year | ( 9,237,083) | ( 762,917) | ( 10,000,000) |
| Reclassification | 3,534,876 | 8,487,624 | 12,022,500 |
| Depreciation for the year | - | ( 16,898,647) | ( 16,898,647) |
| Balance at December 31, 2013, net of accumulated depreciation and impairment | P 349,656,229 | P 96,004,325 | P 445,660,554 |

Additions to investment properties include gain on foreclosure amounting to P87.7 million, P6.2 million and P4.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. These are presented as part of Gain on foreclosure under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2014, 2013 and 2012, gains on sale of investment properties amounted to P27.8 million, P17.2 million and P11.7 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2013, impairment losses amounting to P10.0 million was recognized by the Bank to write-down to recoverable amount certain parcels of land and buildings. The recoverable amount of such assets as of December 31, 2013 was based on value-in-use computed using discounted cash flows method at an effective rate of 2.9%.

## 17. OTHER RESOURCES

This account consists of the following as of December 31:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Deferred tax assets - net | 25 | 286,392,760 | 249,962,966 |
| Branch licenses | | 248,680,000 | 248,380,000 |
| Sundry debits | | 84,878,908 | 22,240,060 |
| Foreign currency notes and coins on hand | | 58,364,936 | 35,575,147 |
| Computer software - net | | 50,989,684 | 50,828,913 |
| Goodwill | | 49,878,393 | 49,878,393 |
| Security deposits | | 23,715,216 | 22,200,210 |
| Due from head office or branches | | 23,223,993 | 79,987,096 |
| Stationery and supplies | | 13,609,965 | 13,564,547 |
| Deferred charges | | 13,383,687 | 13,383,687 |
| Prepaid expenses | | 12,932,236 | 7,455,487 |
| Miscellaneous | | 59,467,130 | 16,457,619 |
| | | 925,516,908 | 809,914,125 |
| Allowance for impairment | | ( 13,393,424) | ( 13,393,424) |
| | | P 912,123,484 | P 796,520,701 |

The movement in the allowance for impairment losses for other resources is shown below.

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | P 13,393,424 | P 17,643,424 |
| Reversal of allowance for other deferred charges | - | ( 4,250,000) |
| Balance at end of year | P 13,393,424 | P 13,393,424 |

### 17.1 Branch Licenses

The Bank's license application for 26 new branches in 2014 has not yet been approved. This is in line with the Bank's branch expansion program for which it has allocated P200.0 million of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to a total of P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 Million

17.2 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of Kabalikat Rural Bank, Inc. (KRBI) at the date of merger in 2010, wherein net liabilities assumed amounted to P33.9 million, while total consideration amounted to P49.9 million.

17.3 Others

Deferred charges amounting to P13.4 million as of December 31, 2014 and 2013 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) with a cost of P7.5 million and P9.8 million as of December 31, 2014 and 2013, respectively, are presented net of accumulated depreciation of P3.2 million as of December 31, 2014 and 2013. Depreciation expense recognized in 2014 and 2012 amounted to P2.8 million and P0.5 million, respectively, and are presented as part of Depreciation and Amortization in the 2014 and 2012 statements of profit or loss (nil in 2013). Additions to other properties held for sale in 2014 and 2012, as a result of foreclosure, amounted to P1.0 million and P2.7 million, respectively (nil in 2013). The Bank recognized loss on foreclosure of other properties held for sale amounting to P3.5 million in 2012 (nil in 2014 and 2013). These are presented as part of Gain on foreclosure under Miscellaneous Income in 2012 statement of profit or loss (see Notes 22.1).

In 2012, gains on sale of other properties held for sale amounted to P0.5 million (nil in 2014 and 2013) are presented as part of Gain on sale of properties – net in the 2012 statement of profit or loss (see Note 22.1).

## 18. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

| | 2014 | 2013 |
|---|---|---|
| Within one year | P 45,948,551,504 | P 37,322,908,003 |
| Beyond one year | 670,856,122 | 559,102,741 |
| | P 46,619,407,626 | P 37,882,010,744 |

The classification of the Bank's deposit liabilities as to currency follows:

| | 2014 | 2013 |
|---|---|---|
| Philippine pesos | P 42,401,789,144 | P 34,433,045,569 |
| Foreign currencies | 4,217,618,482 | 3,448,965,175 |

| | 2014 | 2013 |
|---|---|---|
| | P 46,619,407,626 | P 37,882,010,744 |

Interest rates on deposit liabilities range from 0.25% to 2.60% per annum in 2014, 0.25% to 2.50% per annum in 2013 and 0.25% to 4.75% per annum in 2012.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2014 and 2013.

## 19. BILLS PAYABLE

This account consists of the following (including the related accrued interest):

| | 2014 | 2013 |
|---|---|---|
| Repurchase agreement | P 300,384,028 | P - |
| BSP | - | 164,597,199 |
| Other bank | 9,137,824 | 29,330,602 |
| | P 309,521,852 | P 193,927,801 |

The maturity profile of bills payable follows:

| | 2014 | 2013 |
|---|---|---|
| Within one year | P 304,740,602 | P 167,835,440 |
| Beyond one year | 4,781,250 | 26,092,361 |
| | P 309,521,852 | P 193,927,801 |

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 2.25% to 5.35%, 3.50% to 5.35% and 3.75% to 5.35% in 2014, 2013 and 2012, respectively. Total interest expense incurred amounted to P2.2 million, P8.6 million and P25.9 million in 2014, 2013 and 2012, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss. Bills payable are collateralized by certain loans from customers and HTM securities (see Notes 13 and 14).

## 20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Bills purchased | | P 1,692,670,131 | P 1,018,007,224 |
| Outstanding acceptances | | 468,961,122 | 225,319,929 |
| Accounts payable | | 289,042,507 | 420,616,912 |
| Manager's checks | | 137,371,321 | 147,111,827 |
| Accrued expenses | 30.1(a) | 113,420,863 | 98,087,337 |
| Income tax payable | | 92,902,903 | 47,588,671 |
| Post-employment benefit obligation | 23.2 | 39,810,239 | 44,587,997 |
| Withholding taxes payable | | 31,136,457 | 36,179,705 |
| Derivative liabilities | 7.2 | 228,814 | 621,201 |
| Others | | 35,894,518 | 17,090,964 |
| | | P 2,903,219,245 | P 2,055,211,767 |

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Outstanding acceptances pertain to the liabilities recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

Accounts payable include amounts which the Bank owes to its suppliers and advance payments received from its customers.

Accrued expenses include accruals on employee benefits, utilities, janitorial and security services fees and others.

## 21. EQUITY

### 21.1 Capital Stock

Capital stock as of December 31 consists of:

| | Number of Shares | | Amount | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Preferred shares – P10 par value | | | | |
| Authorized – 130,000,000 shares | | | | |
| Issued, fully paid and outstanding | 62,000,000 | 62,000,000 | P 620,000,000 | P 620,000,000 |
| Common shares – P10 par value | | | | |
| Authorized – 870,000,000 shares in 2013 | | | | |
| Issued, fully paid and outstanding | | | | |
| Balance at the beginning of the year | 343,333,400 | 242,000,000 | P 3,433,334,000 | P 2,420,000,000 |
| Stock dividends | 85,833,350 | - | 858,333,500 | - |
| Issued during the year | - | 101,333,400 | - | 1,013,334,000 |
| | 429,166,750 | 343,333,400 | P 4,291,667,500 | P 3,433,334,000 |

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8% per annum.

On February 18, 2013, the Bank offered its 101,333,400 unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Notes 1 and 21.4).

On July 16, 2012, the BOD and the stockholders representing at least two-thirds of the issued and outstanding capital stock approved the following amendments, among others, to the articles of incorporation of the Bank: (i) increase in the authorized capital stock to P10 billion divided into 870 million common shares with par value of P10 per share and 130 million preferred shares with par value of P10 per share from P3 billion authorized capital stock divided into 17 million common shares with par value of P100 per share and 13 million preferred shares with par value of P100 per share; and, (ii) change in the features of preferred shares from redeemable and non-convertible to redeemable and convertible to common shares at par value at the option of the Bank. On November 27, 2012, the BOD approved the revocation of the July 16, 2012 approval to change the features of preferred shares to redeemable and convertible to common at par value. The amended articles of incorporation (excluding the change of the features of preferred shares to redeemable and convertible to common shares) were approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively.

As of December 31, 2014, the Bank has 100 holders of its equity securities listed in the PSE and its share price closed at P18.80. The Bank has 429,166,750 million common shares traded in the PSE as of December 31, 2014.

### 21.2 Dividends

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to P62.3 million for all issued and outstanding preferred shares and stock dividends totaling 85.8 million common shares amounting to P858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On July 16, 2012, the stockholders representing at least two-thirds of the issued and outstanding capital stock, approved the declaration of cash dividends amounting to P100.4 million for all issued and outstanding preferred shares and stock dividends totaling 20 million common shares amounting to P2.0 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2011. The dividend distribution was approved by the BSP on October 17, 2012.

### 21.3 Appropriated Surplus

In 2014, 2013 and 2012, additional appropriations of surplus amounting to P1.6 million, P0.9 million and P0.6 million, respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 27).

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2014 and 2013, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

### 21.4 Paid-in Capital from IPO

As mentioned in Note 21.1, the Bank's common shares were listed at the PSE in February 2013. Total proceeds received from the IPO amounted to P3,011.7 million, P1,998.4 million of which is treated as part of Additional Paid-in Capital being the amount paid in excess of the common stocks' par value. Total share issuance costs deducted from APIC amounted to P180.2 million. Offer expenses from the IPO amounting to P4.9 million were presented as part of Other Operating Expenses in the 2013 statement of profit or loss.

## 22. MISCELLANEOUS INCOME AND EXPENSES

### 22.1 Miscellaneous Income

This account is composed of the following:

| | Notes | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Gain on foreclosure - net | 16, 17 | P 87,676,870 | P 6,239,465 | P 1,018,455 |
| Gain on sale of properties – net | 16, 17 | 27,801,013 | 17,233,626 | 12,226,663 |
| Trust fees | 27 | 16,476,979 | 8,907,035 | 5,959,343 |
| Consultancy fee | | - | - | 52,353,685 |
| Others | 16 | 12,198,935 | 5,848,253 | 32,657,922 |
| | | P 144,153,797 | P 38,228,379 | P 104,216,068 |

Consultancy fee pertains to a one-time fee received by the Bank for acting as a financial advisor for the settlement of a third party's obligation to another counterparty.

Others include, among others, commitment, processing and handling fees in relation to services rendered by the Bank.

### 22.2 Miscellaneous Expense

This account is composed of the following:

| | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Transportation and travel | P | 83,152,129 | P | 74,778,937 | P | 71,188,073 |
| Litigation on asset acquired | | 24,195,212 | | 9,323,605 | | 26,475,997 |
| Communication | | 24,038,942 | | 16,025,157 | | 13,987,594 |
| Banking fees | | 18,625,488 | | 13,852,700 | | 8,663,057 |
| Office supplies | | 14,021,252 | | 16,315,156 | | 6,446,612 |
| Amortization of software licenses | | 13,847,731 | | 11,391,881 | | 6,956,079 |
| Advertising and publicity | | 9,727,883 | | 6,858,379 | | 12,076,687 |
| Donations and contributions | | 6,307,236 | | 2,280,172 | | 202,503 |
| Information technology | | 2,052,533 | | 2,563,313 | | 626,073 |
| Membership dues | | 1,719,026 | | 1,249,200 | | 1,305,265 |
| Others | | 24,286,724 | | 18,147,919 | | 60,478,247 |
| | P | 221,974,156 | P | 172,786,419 | P | 208,406,187 |

Others include, among others, brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

## 23. EMPLOYEE BENEFITS

### 23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

| | Note | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|---|
| Salaries and wages | | P | 278,087,924 | P | 227,880,927 | P | 185,125,618 |
| Bonuses | | | 96,991,056 | | 71,319,899 | | 59,666,530 |
| Post-employment defined benefit plan | 23.2 | | 22,450,730 | | 14,583,891 | | 10,531,181 |
| Social security costs | | | 17,816,211 | | 12,969,290 | | 10,722,110 |
| Short-term medical benefits | | | 60,670 | | 142,363 | | 246,589 |
| Other short-term benefits | | | 64,145,746 | | 65,443,287 | | 54,501,366 |
| | | P | 479,552,337 | P | 392,749,657 | P | 320,793,394 |

### 23.2 Post-employment Benefit

*(a) Characteristics of the Defined Benefit Plan*

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the

amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

The amounts of post-employment defined benefit obligation (see Note 20) recognized in the statements of financial position are determined as follows:

| | 2014 | 2013 |
|---|---|---|
| Present value of the DBO | P 144,748,892 | P 118,207,371 |
| Fair value of plan assets | ( 104,938,653) | ( 73,619,374) |
| | P 39,810,239 | P 44,587,997 |

The movements in the present value of the post-employment defined benefit obligation are as follows:

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | P 118,207,371 | P 89,955,851 |
| Current service cost | 22,450,730 | 14,583,891 |
| Interest expense | 5,910,369 | 5,298,400 |
| Remeasurements: | | |
| Actuarial losses (gains) arising from: | | |
| Changes in financial assumptions | 4,814,608 | ( 1,810,936) |
| Experience adjustments | ( 4,547,415) | 13,611,233 |
| Benefits paid | ( 2,086,771) | ( 3,431,068) |
| Balance at end of year | P 144,748,892 | P 118,207,371 |

The movements in the fair value of plan assets are presented below.

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | P 73,619,374 | P 49,629,617 |
| Interest income | 4,401,921 | 3,559,548 |
| Return on plan assets (excluding amounts included in net interest) | ( 1,920,720) | ( 1,178,057) |
| Contributions to the plan | 30,924,849 | 25,039,334 |
| Benefits paid | ( 2,086,771) | ( 3,431,068) |
| Balance at end of year | P 104,938,653 | P 73,619,374 |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

| | 2014 | 2013 |
|---|---|---|

| | | |
|---|---|---|
| Cash and cash equivalents | P 51,536,801 | P 25,227,997 |
| Government bonds | 52,051,242 | 46,913,959 |
| Accrued interests | 1,557,081 | 1,482,148 |
| | 105,145,124 | 73,624,104 |
| Accountabilities | ( 206,471) | ( 4,730) |
| | P 104,938,653 | P 73,619,374 |

The fair values of the above government bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P2.5 million and P2.4 million in 2014 and 2013, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Reported in profit or loss: | | | |
| Current service cost | P 22,450,730 | P 14,583,891 | P 10,531,181 |
| Net interest expense | 1,508,448 | 1,738,852 | 1,297,045 |
| | P 23,959,178 | P 16,322,743 | P 11,828,226 |
| Reported in other comprehensive income: | | | |
| Actuarial gains (losses) arising from changes in: | | | |
| Financial assumptions | (P 4,814,608) | P 1,810,936 | P 5,688,969 |
| Experience adjustments | 4,547,415 | ( 13,611,233) | ( 4,590,916) |
| Return on plan assets (excluding amounts included in net interest expense) | ( 1,920,720) | ( 1,178,297) | ( 1,045,992) |
| | (P 2,187,913) | (P 12,978,354) | (P 9,233,893) |

Current service cost is presented as part Salaries and Other Employee Benefits under the caption Other Expenses while net interest expense is presented as Interest Expense – Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Discount rates | 4.5% | 5.0% | 5.9% |
| Expected rate of salary increases | 5.0% | 5.0% | 5.0% |
| Employee turnover | 0.0% - 7.5% | - | - |

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 28 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(d) Investment and Interest Risks*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

*(e) Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(f) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

*(i) Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2014 and 2013:

| **Impact on Post-employment Benefit Obligation** | | |
|---|---|---|
| Change in | Increase in | Decrease in |

| | Assumption | | Assumption | | Assumption |
|---|---|---|---|---|---|
| December 31, 2014 | | | | | |
| Discount rate | +7.1%/-6.3% | P | 10,309,904 | P | 9,184,011 |
| Salary rate | +6.1%/-5.6% | | 8,864,310 | | 8,093,255 |
| December 31, 2013 | | | | | |
| Discount rate | +14.4%/-11.8% | | 17,063,686 | | 13,937,259 |
| Salary rate | +13.2%/-11.1% | | 15,626,665 | | 13,071,656 |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

*(g) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2014 and 2013 consists of debt securities, although the Bank also invests in cash and cash equivalents. The Bank believes that debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

*(h) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P39.8 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 28 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan for the next 10 years follows:

| | | |
|---|---|---|
| Within one year | P | 16,285,200 |
| More than one year to five years | | 41,518,462 |
| More than five years to ten years | | 45,758,486 |
| | P | 103,562,148 |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 8.8 years.

## 24. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others as described below.

The following are the Bank's transactions with related parties:

| Related Party Category | Note | **2014** Amount of Transaction | **2014** Outstanding Balance | 2013 Amount of Transaction | 2013 Outstanding Balance |
|---|---|---|---|---|---|
| **Entities under common ownership** | | | | | |
| Deposit liabilities | 24.1 | **P 6,684,121,984** | **P6,679,050,225** | P 2,516,345 | P 5,661,978 |
| Loans | 24.2 | **1,193,206,043** | **950,000,000** | 1,214,795,439 | 950,000,000 |
| Interest income on loans | 24.2 | **70,604,436** | **2,306,326** | 11,920 | 2,046,583 |
| Retirement fund | 24.3 | **2,086,772** | **5,742,625** | 739,313 | 25,255,776 |
| **Key management and others** | | | | | |
| Compensation | 24.4 | **79,610,918** | **-** | 77,583,991 | - |
| Loans | 24.2 | **22,898,075** | **277,156,442** | 5,421,877 | 264,795,439 |
| Interest income on loans | 24.2 | **1,531,692** | **120,504** | 1,327,033 | 92,608 |
| Sale of investment properties | 24.2 | **-** | **-** | 300,000 | - |

### 24.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2014 and 2013.

### 24.2 DOSRI Loans

The Bank has loan transactions with its officers and employees. The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2014 and 2013, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Relative to the DOSRI loans, the following additional information is also presented:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Total outstanding DOSRI loans | P | 1,227,156,442 | P | 1,214,795,439 |
| Unsecured DOSRI loans | | 8,354,223 | | 11,775,870 |
| Past due DOSRI loans | | 3,157,034 | | 2,761,219 |
| % to total loan portfolio | | 3.1% | | 4.0% |
| % of unsecured DOSRI loans to total DOSRI loans | | 0.7% | | 1.0% |
| % of past due DOSRI loans to total DOSRI loans | | 0.3% | | 0.2% |

The details of total outstanding DOSRI Loans for the year ended December 31, 2014 and 2013 are shown below.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Commercial loans | **P** | **1,192,734,491** | P | 1,191,009,750 |
| Key management personnel | | **34,421,951** | | 23,048,927 |
| Other related party | | **-** | | 736,762 |
| | **P** | **1,227,156,442** | P | 1,214,795,439 |

As of December 31, 2014 and 2013, the Bank has an approved line of credit to certain related parties totaling P230.0 million and all was used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

24.3 Transactions with Retirement Fund

The Bank's retirement fund has no transactions direct and indirect with the Bank or its employees as of December 31, 2014 and 2013, except for the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23. The retirement plan asset also comprise of short-term placements to the Bank amounting to P5.7 million and P25.3 million as of December 31, 2014 and 2013, respectively

24.4 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| Salaries and wages | P | 55,286,737 | P | 56,277,678 | P | 45,629,360 |
| Bonuses | | 13,771,434 | | 14,044,419 | | 11,610,623 |
| Post-employment defined benefit | | 8,701,539 | | 4,666,559 | | 2,551,469 |

| | | | |
|---|---|---|---|
| Other short-term benefits | 683,000 | 1,256,000 | 6,292,113 |
| Social security costs | 1,168,208 | 1,339,335 | 1,022,800 |
| | P 79,610,918 | P 77,583,991 | P 67,106,365 |

## 25. TAXES

The components of tax expense (income) for the years ended December 31 follow:

| | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Reported in profit or loss | | | | | | |
| Current tax expense: | | | | | | |
| Regular corporate income tax (RCIT) at 30% | | | | | | |
| Regular Banking Unit (RBU) | P | 176,802,660 | P | 68,890,924 | P | - |
| FCDU | | 410,982 | | 660,432 | | 403,303 |
| Final tax on income at 20%, 10% and 7.5% | | 100,999,011 | | 101,023,942 | | 73,261,960 |
| Minimum corporate income tax (MCIT) at 2% | | - | | - | | 15,625,703 |
| | | 278,212,653 | | 170,575,298 | | 89,290,966 |
| Deferred tax income relating to origination and reversal of temporary differences | ( | 35,773,420) | ( | 46,848,274) | ( | 32,728,798) |
| | P | 242,439,233 | P | 123,727,024 | P | 56,562,168 |
| Reported in other comprehensive income | | | | | | |
| Deferred tax income relating to origination and reversal of temporary differences | ( P | 656,374) | ( P | 3,893,506) | ( P | 2,770,168) |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

| | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| Tax on pretax profit at 30% | P | 233,593,301 | P | 338,332,091 | P | 213,345,519 |
| Adjustment for income subjected to lower tax rates | ( | 78,188,870) | ( | 31,492,317) | ( | 23,283,941) |
| Tax effects of: | | | | | | |
| Non-deductible expenses | | 90,655,288 | | 116,503,975 | | 93,940,013 |
| Non-taxable income | ( | 3,620,486) | ( | 299,616,725) | ( | 227,439,423) |
| Tax expense reported in the statements of profit or loss | P | 242,439,233 | P | 123,727,024 | P | 56,562,168 |

The Bank is subject to MCIT computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. In 2013, the Bank utilized its entire outstanding MCIT incurred in 2010 to 2012 totaling P32.9 million.

The net deferred tax assets as of December 31, 2014 and 2013 (included as part of Other Resources account – see Note 17) relate to the following:

| | Statements of Financial Position | | Profit or Loss | | Other Comprehensive Income | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Deferred tax assets: | | | | | | |
| Allowance for impairment losses | **P 273,308,409** | P 220,368,273 | **(P 52,940,136)** | (P 50,458,137) | **P -** | P - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Excess MCIT over RCIT | - | - | - | 32,942,109 | - | - |
| Accumulated depreciation of investment properties and other properties held for sale | **15,292,014** | 15,080,174 | **( 211,840)** | ( 3,971,129) | - | |
| Post-employment benefit obligation | **11,943,072** | 13,376,399 | **2,089,701** | 2,614,976 | **( 656,374)** | ( 3,893,506) |
| Unamortized past service cost | **7,342,146** | 5,874,611 | **( 1,467,535)** | ( 2,316,154) | - | - |
| Accrued bonus and leave conversion | **10,933,991** | 10,212,452 | **( 721,539)** | ( 10,906,640) | - | - |
| Deferred tax liabilities: | | | | | | |
| Gain on initial exchange of investment properties | **( 32,426,872)** | ( 14,948,943) | **17,477,929** | ( 14,753,299) | - | - |
| Net Deferred Tax Assets | **P 286,392,760** | P 249,962,966 | | | | |
| Deferred Tax Income | | | **(P 35,773,420)** | (P 46,848,274) | **(P 656,374)** | (P 3,893,506) |

As of December 31, 2014 and 2013, the Bank has unrecognized deferred tax assets amounting to P11.9 million which pertain to certain allowance for impairment losses absorbed from KRBI upon merger amounting to P39.6 million.

For the years ended December 31, 2014 and 2013, the Bank opted to claim itemized deductions.

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

(a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. Rent expense amounted to P95.5 million, P78.8 million and P60.1 million in 2014, 2013 and 2012, respectively, and are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2014, 2013 and 2012, future minimum rental payments required by the lease contracts are as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Within one year | P 83,544,132 | P 69,432,324 | P 54,608,414 |
| After one year but not more than five years | 219,653,731 | 179,362,736 | 133,513,317 |
| More than five years | 22,230,832 | 21,402,649 | 26,165,256 |
| | P 325,428,695 | P 270,197,709 | P 214,286,987 |

(b) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

(c) The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

| | 2014 | 2013 |
|---|---|---|
| Investment management accounts | P 3,428,334,610 | P 6,400,701,696 |
| Outstanding letters of credit | 512,119,342 | 914,864,302 |
| Trust and other fiduciary accounts | 281,508,984 | 387,242,450 |
| Unit investment trust fund | 103,019,962 | 104,269,465 |
| Outward bills for collection | 43,102,544 | 109,225 |
| Late payment/deposits received | 13,121,910 | 2,975,878 |
| Items held for safekeeping | 42,584 | 32,997 |

| | | |
|---|---|---|
| Items held as collateral | 7,925 | 6,796 |
| Other contingent accounts | 123,879,021 | 375,299,744 |
| | P 4,505,136,882 | P 8,185,502,553 |

As of December 31, 2014 and 2013, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

## 27. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

| | 2014 | 2013 |
|---|---|---|
| Loans and other receivables | P 2,235,097,360 | P 543,551,970 |
| Investment securities | 1,067,235,611 | 5,564,282,511 |
| Due from banks | 404,797,825 | 784,379,130 |
| Due from BSP | 97,000,000 | - |
| | P 3,804,130,796 | P 6,892,213,611 |

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P23.1 million and P38.0 million as of December 31, 2014 and 2013, respectively, are deposited with the BSP (see Note 12); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2014 and 2013, additional reserve for trust functions amounted to P1.6 million and P0.9 million and is presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P16.5 million, P8.9 million and P6.0 million for the years ended December 31, 2014, 2013 and 2012, respectively, in the statements of profit or loss (see Note 22.1).

## 28. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Return on average capital | | | |
| Net profit / Average total capital accounts | 7.1% | 17.6% | 16.3% |
| Return on average resources | | | |
| Net profit / Average total resources | 1.0% | 2.5% | 2.2% |
| Net interest margin | | | |
| Net interest income / Average interest earning resources | 4.5% | 4.6% | 3.9% |
| Capital to risk assets ratio | | | |
| Total capital / Risk resources | 20.8% | 26.0% | 18.9% |

# OUR CORPORATE GOVERNANCE

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year 2014
2. Exact Name of Registrant as Specified in its Charter Philippine Business Bank, Inc.
3. 350 Rizal Ave. ext. cor 8th Ave. Grace Park, Caloocan City — 1400
   Address of Principal Office — Postal Code
4. SEC Identification Number A199701584
5. (SEC Use Only)
   Industry Classification Code
6. BIR Tax Identification Number 005-469-606
7. (02) 363-3333
   Issuer's Telephone number, including area code
8. N/A
   Former name or former address, if changed from the last report

## TABLE OF CONTENTS

## A. BOARD MATTERS

### 1) Board of Directors

| Number of Directors per Articles of Incorporation | 10 |
|---|---|

| Actual number of Directors for the year | 10 |
|---|---|

(a) Composition of the Board
Complete the table with information on the Board of Directors:

| Director's Name | Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)] | If nominee, identify the principal | Nominator in the last election (if ID, state the relationship with the nominator) | Date first elected | Date last elected (if ID, state the number of years served as ID)[1] | Elected when (Annual /Special Meeting) | No. of years served as director |
|---|---|---|---|---|---|---|---|
| Francis T. Lee | NED | N/A | President | Oct. 2000 | May 30, 2014 | AM | 14 |
| Peter N. Yap | ED | N/A | Chairman | Aug. 2010 | May 30, 2014 | AM | 4 |
| Rolando R. Avante | ED | N/A | Chairman | Nov. 2011 | May 30, 2014 | AM | 3 |
| Amador T. Vallejos, Jr. | NED | N/A | Chairman | May 1997 | May 30, 2014 | AM | 17 |
| Jeffrey S. Yao | NED | N/A | Chairman | 1999 | May 30, 2014 | AM | 15 |
| Honorio O. Reyes-Lao | NED | N/A | Chairman | Apr. 2010 | May 30, 2014 | AM | 4 |
| Paternon H. Dizon | ID | N/A | Chairman | Apr. 2006 | May 30, 2014 | AM | 8 |
| Leticia M. Yao | NED | N/A | Chairman | 2009 | May 30, 2014 | AM | 5 |
| Benjamin R. Sta. Catalina, Jr. | ID | N/A | Chairman | Jul. 2012 | May 30, 2014 | AM | 2 |
| Roberto A. Atendido | NED | N/A | Chairman | May 2006 | May 30, 2014 | AM | 1.5 |

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

The Board of Directors has adopted the following corporate governance policies with regard to shareholders' rights and protection, disclosure duties and board responsibilities:

i) The Board of Directors is committed to respect and uphold the rights and powers of all shareholders, regardless of the number of their shareholdings, such as: (a) voting right, (b) power to inspect corporate books and records, (c) right to information, (d) right to dividends, and (e) right to appraisal.

Specifically, under the voting right of a stockholder, a director may not be removed without just cause if it will deny minority shareholders representation in the Board. Likewise, under the right to information, a minority shareholder is granted the right to propose the holding of a meeting, and the right to propose items in the agenda; provided the items are for legitimate business purposes.

ii) The Board of Directors provides periodic reports to the shareholders which disclose personal and professional information about the directors and officers and other matters, such as their dealings with, and shareholdings in, the Bank, relationship among directors and key officers and the aggregate compensation of directors and officers.

iii) The Board of Directors has general responsibilities of: (1) approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values; (2) monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

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

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[1]

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

| Director's Name | Corporate Name of the Group Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|---|---|---|
| N/A | N/A | N/A |
| | | |

(ii) Directorship in Other Listed Companies

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

| Director's Name | Name of Listed Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|---|---|---|
| Roberto A. Atendido | Paxy's, Inc. and Macay Holdings, Inc. | Non-Executive |
| Jeffrey S. Yao | Macay Holdings, Inc. | Executive |

(iii) Relationship within the Company and its Group

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

| Director's Name | Name of the Significant Shareholder | Description of the relationship |
|---|---|---|
| Jeffrey S. Yao | Alfredo M. Yao | Father |
| Leticia M. Yao | Alfredo M. Yao | Brother |

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

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? Yes, but without specifics as to the number.
In particular, is the limit of five board seats in other publicly listed companies imposed and observed? Yes.
If yes, briefly describe other guidelines:

| | Guidelines | Maximum Number of Directorships in other companies |
|---|---|---|
| Executive Director | Low Indicative Limit | No ED is holding board seats in other publicly companies in excess of five (5). |
| Non-Executive Director | Low Indicative limit | No NED is holding board seats in other publicly companies in excess of five (5). |
| CEO | Low Indicative Limit | N/A |

(e) Shareholding in the Company

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

| Name of Director | Number of Direct Shares | Number of Indirect sharesa / Through (name of record owner) | % of Capital Stock |
|---|---|---|---|
| Francis T. Lee | 30,375,000 | | 7.07% |
| Peter N. Yap | 209,810 | | 0.05% |
| Rolando R. Avante | 125,072 | | 0.03% |
| Jeffrey S. Yao | 1,080,357 | | 0.25% |
| Leticia M. Yao | 1,120,357 | | 0.26% |
| Honorio O. Reyes-Lao | 46,250 | 113,750 | 0.04% |
| Benjamin R. Sta. Catalina, Jr. | 37,572 | | 0.01% |
| Amador T. Vallejos, Jr. | 25,717 | | 0.01% |
| Roberto A. Atendido | 72,500 | | 0.02% |
| Paterno H. Dizon | 87,572 | | 0.02% |
| TOTAL | 33,180,207 | 113,750 | 7.76% |

2) Chairman and CEO

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

Yes ☑ No ☐

Identify the Chair and CEO:

| | |
|---|---|
| Chairman of the Board | Francis T. Lee |
| CEO/President | Rolando R. Avante |

(b) Roles, Accountabilities and Deliverables

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

| | Chairman | Chief Executive Officer |
|---|---|---|
| Role | Presides at the meetings of the Board of Directors (BOD) and stockholders. In case of a tie, casts a vote to break such tie. | Handles the administration and direction of the day-to-day business affairs of the Bank; presides at the meetings of the BOD in the absence of the Chairman and Vice Chairman; represents the Bank at all functions and proceedings; signs certificates of stock. |
| | Ensures that the BOD takes an informed decision. | Ensures that the administrative and operational policies of the Bank are carried out under his supervision and control; has general supervision and management of the business affairs and property of the Bank. |
| Deliverables | Provides leadership in the BOD. | Initiate and develop corporate objectives and policies, and formulate business plans for the approval of the BOD; executes on behalf of the Bank all contracts, agreements and other instruments affecting the interests of the Bank that require the approval of the BOD, unless otherwise directed by the BOD; oversees the preparation of the budgets and the financial statements of the Bank, signs /executes such reports of the Bank as may be required of him by the regulatory bodies; makes and present the reports to the BOD and Stockholders. |

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

The BOD approved a succession plan drawn by Management wherein possible successors for top key management positions are to be identified. The criteria in the identification and selection for the successors are based on the qualifications and readiness of the candidates. To prepare them for their future jobs, the Management determined the successors' developmental needs through the job competence factors evaluation and focused interview. The next step is to send them to trainings that are relevant and appropriate for the position they are chosen to assume in the future.

4) Other Executive, Non-Executive and Independent Directors.

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

Under the BOD-approved Corporate Governance Manual of the Bank, the Board "shall appoint members of the committees taking to account the optimal mix of skills and experience to allow members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the Board shall appoint independent directors and non-executive members of the Board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience and effectiveness of the committees."
Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Under the BOD-approved Corporate Governance Manual of the Bank, a director is required to have a working knowledge of the statutory and regulatory requirements affecting the bank, including the contents of its articles of incorporation and by-laws, the requirements of the Bangko Sentral Ng Pilipinas, and where applicable, the requirements of other regulatory agencies. A director is also required to keep himself informed of the industry developments and business trends in order to safeguard the Bank's competitiveness.

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

| | Executive | Non-Executive | Independent Director |
|---|---|---|---|
| Role | Provides entrepreneurial leadership to the Bank; designs, develop and implement strategic plans. | Constructively challenges and contributes to the development of strategic plans of the Bank; participates actively in the deliberation of issues brought to the BOD by Management; reviews the performance of Management in meeting the agreed goals and objectives of the Bank; reviews the integrity of the financial information and ensures that financial controls and systems of risk management are robust and defensible. | Acts in the best interest of the Bank; establishes a balance between the interests of management and shareholders. |
| Accountabilities | Responsible for the day-to-day operations of the Bank; regularly reports to the BOD on the financial condition of the Bank. | Responsible for determining appropriate levels of remuneration of executive directors; has prime role in succession planning and in appointing, and where necessary, removing executive directors. | Protects the interest of shareholders and other stakeholders; has working knowledge of the statutory and regulatory requirements affecting the Bank; remains fit and proper for the position for the duration of his term; contributes significantly to the decision-making process of the BOD. |

| | Executive | Non-Executive | Independent Director |
|---|---|---|---|
| Deliverables | Ensures the healthy growth and continued profitability of the Bank; ensures Management's and Staff's adherence and compliance with the corporate governance principles and programs of the Bank; devotes time and attention to properly discharge their duties and responsibilities; exercises independent judgment; acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders; acts judiciously; conducts fair business transaction with the Bank and ensure that personal interest does not bias board decisions; Have working knowledge of the statutory and regulatory requirements affecting the Bank; observes confidentiality; contributes significantly to the decision-making process of the BOD; and remains fit and proper for the position for the duration of his term. | Meets occasionally, whenever appropriate, as a group without executive directors and the Chairman being present; may be asked to serve on at least one (1) board committee; devotes time and attention to properly discharge their duties and responsibilities; exercises independent judgment; acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders; acts judiciously; conducts fair business transaction with the Bank and ensure that personal interest does not bias board decisions; Have working knowledge of the statutory and regulatory requirements affecting the Bank; observes confidentiality; contributes significantly to the decision-making process of the BOD; and remains fit and proper for the position for the duration of his term. | Joins in the occasional meeting of non-executive directors, whenever appropriate, as a group without executive directors and the Chairman being present; may be asked to serve on at least one(1) board committee; devotes time and attention to properly discharge their duties and responsibilities; exercises independent judgment; acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders; acts judiciously; conducts fair business transaction with the Bank and ensure that personal interest does not bias board decisions; has working knowledge of the statutory and regulatory requirements affecting the Bank; observes confidentiality; contributes significantly to the decision-making process of the BOD; and remains fit and proper for the position for the duration of his term. |

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

Independence refers to that environment which allows the person to carry out his/her work freely and objectively.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain. Yes. An independent director of the Bank may only serve as such for a total of five (5) consecutive years. After two years he may qualify for nomination and election as Independent director for another five years.

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

(a) Resignation/Death/Removal

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

| Name | Position | Date of Cessation | Reason |
|---|---|---|---|
| N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A |

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

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

| Procedure | Process Adopted | Criteria |
|---|---|---|
| a. Selection/Appointment | | |
| (i) Executive Directors | The Nomination/ Corporate Governance Committee pre-screens and short-lists all candidates nominated to become members of the BOD in accordance with the qualifications and disqualifications provisions of the Bank's Corporate Governance Manual. | Age, professional/ academic qualifications, integrity/probity, physical/ mental fitness, competence and knowledge/ experience of the nominee. |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |
| b. Re-appointment | | |
| (i) Executive Directors | The Nomination/ Corporate Governance Committee conducts annual evaluation of the performance of all directors. The results in this annual activity is the basis of the Committee in coming up with the list of nominees to be submitted to the Corporate Secretary for possible re-appointment/re-election to the Board as director during the stockholders meeting. | -do- |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |
| c. Permanent Disqualification | | |

| Procedure | Process Adopted | Criteria |
|---|---|---|
| (i) Executive Directors | The Chief Compliance Officer (CCO) reports to the Nomination/ Corporate Governance Committee any violations against any of the provisions of the Corporate Governance Manual of the Bank, including those provisions concerning permanent or temporary disqualification of directors. The Nomination/Corporate Governance Committee then conducts hearing and recommends to the Chairman of the Board the imposable penalty, which the Board shall review. | Persons convicted by final judgment of an offense involving dishonesty; persons convicted of a crime involving violations against any law administered by the SEC or BSP; persons judicially declared insolvent, spendthrift or incapacitated to enter into a contract; persons convicted by final judgment of an offense punishable by imprisonment for a period exceeding six years, or a violation of the Corporation Code, committed within five years prior to date of his election or appointment or violation of banking laws; directors, officers or employees of closed banks/quasi-banks/trust entities who were responsible for such institutions' closure as determined by the Monetary Board. |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |
| d. Temporary Disqualification | | |
| (i) Executive Directors | -do- | Persons who refuse to fully disclose the extent of his business interest as required under the Securities Regulation Code; directors who have been absent or who have not participated for what ever reason in more than 50% of all meeting, both regular and special, of the BOD during his incumbency and persons who failed to physically attend for whatever reasons in at least 25% of all board meetings in any year; persons dismissed/terminated from employment/directorship in another listed corporat ion for cause; persons under preventive suspension by a bank; persons with derogatory records with the NBI, court, police Interpol and monetary authority of other countries involving violation of any law, rule or regulation of the Government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duty of the director; persons who are delinquent in the payment of their obligations as defined in the BSP Circular No. 26 dated September 17, 2001 |
| (ii) Non-Executive Directors | -do- | -do- |

| Procedure | Process Adopted | Criteria |
|---|---|---|
| (iii) Independent Directors | -do- | -do-<br>and an independent director who becomes an officer or employee of the Bank shall be disqualified automatically from being an independent director. |
| e. Removal | | |
| (i) Executive Directors | The CCO conducts investigation of the case of the concerned director and submits the results of his investigation to the Nomination/ Corporate Governance Committee. The committee then conducts hearing and communicates the results thereof and its recommendation to the Chairman of the Board, which shall be subject to Board review. | Permanent and temporary disqualifications as mentioned under items c and d above and nature and gravity of violations committed by the director. |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |
| f. Re-instatement | | |
| (i) Executive Directors | The CCO conducts investigation of the case of the concerned director. The Nomination/ Corporate Governance Committee then conducts hearing and recommends to the Chairman of the Board the re-instatement of such director, if there is reasonable basis, which Board shall review. | Permanent and temporary disqualifications as mentioned under items c and d above, nature and gravity of the violations committed by the director and his past performance in the Board |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |
| g. Suspension | | |
| (i) Executive Directors | The CCO conducts investigation of the case of the concerned director. The Nomination/ Corporate Governance Committee then conducts hearing and recommends to the Chairman of the Board the imposable penalty which Board shall review. | Nature and gravity of the violations committed by the director, his performance in Board activities as reflected in his duly-accomplished self-evaluation form. |
| (ii) Non-Executive Directors | -do- | -do- |
| (iii) Independent Directors | -do- | -do- |

Voting Result of the last Annual General Meeting

# OUR CORPORATE GOVERNANCE

| Name of Director | Votes Received |
|---|---|
| Francis T. Lee | Two-thirds of the votes cast |
| Peter N. Yap | Two-thirds of the votes cast |
| Rolando R. Avante | Two-thirds of the votes cast |
| Jeffrey S. Yap | Two-thirds of the votes cast |
| Leticia M. Yao | Two-thirds of the votes cast |
| Amador T. Vallejos, Jr. | Two-thirds of the votes cast |
| Paterno H. Dizon | Two-thirds of the votes cast |
| Honorio O. Reyes-Lao | Two-thirds of the votes cast |
| Benjamin R. Sta. Catalina, Jr. | Two-thirds of the votes cast |
| Roberto A. Atendido | Two-thirds of the votes cast |

6) Orientation and Education Program

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

(b) State any in-house training and external courses attended by Directors and Senior Management[2] for the past three (3) years: The Anti-Money Laundering Act, as Amended (R.A. 9160 as Amended by R.A. 9194 and R.A. 10167) and Circular 706 – Updated Anti-Money Laundering Rules and Regulations.

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

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| Francis T. Lee | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Peter N. Yap | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Rolando R. Avante | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |

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

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| Jeffrey S. Yao | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Leticia M. Yao | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Amador T. Vallejos, Jr. | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Paterno H. Dizon | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Honorio O. Reyes-Lao | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Benjamin R. Sta. Catalina, Jr. | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Nov. 28, 2014 | Corporate Governance Seminar | Ateneo de Manila University – School of Gov't |
| Roberto A. Atendido | Jan. 29, 2014 | AMLA for Members of the Board and Senior Officers | Philippine Business Bank |
| | Aug. 8, 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment and Management (ROAM) Inc. |

B. CODE OF BUSINESS CONDUCT & ETHICS

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

# OUR CORPORATE GOVERNANCE

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (a) Conflict of Interest | A director must exercise the highest ethical standards in dealing with clients, vendors/ suppliers, regulators and other employees; he is required to disclose his existing business interests or shareholdings that may directly or indirectly conflict in the performance of his duties on the date of his assumption/employment; he should avoid situations that would give rise to conflict of interest; he should immediately disclose any occurrence of conflict of interest, whether it be real, apparent or potential, to the BOD through the Chairman. | A senior officer is required to disclose his existing business interests or shareholdings that may directly or indirectly conflict in the performance of his duties on the date of his assumption/ employment; he should avoid situations that would give rise to conflict of interest; he should not engage in any business or undertaking that is directly or indirectly in competition with the Bank or engage directly or indirectly in any undertaking or activity prejudicial to the interest of the Bank; he should immediately disclose any occurrence of conflict of interest, whether it be real, apparent or potential, to the BOD through the Chairman. | An employee is required to disclose his existing business interests or shareholdings that may directly or indirectly conflict in the performance of his duties on the date of his assumption/employment; he should avoid situations that would give rise to conflict of interest; he should not engage in any business or undertaking that is directly or indirectly in competition with the Bank or engage directly or indirectly in any undertaking or activity prejudicial to the interest of the Bank; he should immediately disclose any occurrence of conflict of interest, whether it be real, apparent or potential, to the BOD through the Chairman. |
| (b) Conduct of Business and Fair Dealings | Should conduct fair business transaction with the Bank and ensure that personal interest does not bias board decisions; should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interest; should avoid situations that would compromise his impartiality. | Should conduct fair business transaction with the Bank and ensure that personal interest does not bias management decisions; should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interest; should avoid situations that would compromise his impartiality. | Should conduct fair business transaction with the Bank and ensure that personal interest does not bias decisions; should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interest; should avoid situations that would compromise his impartiality. |

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (c) Receipt of gifts from third parties | A director should act honestly and in good faith with loyalty and in the best interest of the Bank, its stockholders and other stakeholders, such as depositors, investors, borrowers, other clients and the general public; should avoid situations that would compromise his impartiality; required to declare gifts/ items received from clients or other persons in relation to his position. | In general, PBB employees should not solicit nor receive gifts, sponsored travel, extraordinary entertainment or anything of value that may influence their decisions or actions on Bank-related matters or transactions; required to declare gifts/ items received from clients or other persons in relation to his position. | In general, PBB employees should not solicit nor receive gifts, sponsored travel, extraordinary entertainment or anything of value that may influence their decisions or actions on Bank-related matters or transactions; required to declare gifts/items received from clients or other persons in relation to his position. |
| (d) Compliance with Laws & Regulations | The Bank does not accept nominations of persons convicted of an offense involving dishonesty or breach of trust, such as estafa, embezzlement, extortion, forgery or those who committed violation of any provision of the SRC, the Corporation Code or BSP Rules and Regulations, for the position of a director; to ensure proper monitoring of compliance with laws & regulations, a director must have a working should have knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the BSP, and where applicable, requirements of other regulatory agencies; the directors acting as a body ensures that an appropriate compliance program is defined and adopted by the Ban and that compliance issues are resolved expeditiously | The Senior Management is responsible for :(i) establishing compliance program, (ii) ensuring that it is adhered to, (iii) periodically reporting to the Audit Committee and/ or Board of Directors on matters that affect the design and implementation of such compliance program, including material breaches thereon, (iv) addressing promptly such material breaches of the compliance program, and (v) assessing its effectiveness and appropriateness. | Compliance is a line-driven function, hence, it is the direct responsibility of each line manager; each employee is personally responsible for familiarizing oneself with all laws, regulations, rules and standards applicable/ related to his work assignment |

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (e) Respect for Trade Secrets/Use of Non-public Information | A director must observe the confidentiality of non-public information acquired by him by reason of his position as director; he must not disclose said information to any other person without the authority of the BOD. | All PBB employees are required to comply with guidelines of the Information Security Manual of the Bank. Erring employees shall be subject to appropriate penalties and sanctions prescribed in the Code of Conduct. | All PBB employees are required to comply with guidelines of the Information Security Manual of the Bank. Erring employees shall be subject to appropriate penalties and sanctions prescribed in the Code of Conduct. |
| (f) Use of Company Funds, Assets and Information | A director is not allowed to decide his or her own remuneration; a director must observe the confidentiality of non-public information acquired by him by reason of his position as director; he must not disclose said information to any other person; acting as a body (BOD), the members of the BOD must articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, as such but not limited to financial misreporting, money laundering, fraud, bribery or corruption. | The Senior Management, through the Treasurer is in charge of the over-all fund management activities of the Bank and responsible for the liquidity and reserve management operations; is directly involved in Asset and Liability Management where Bank would minimize costs and maximize profit and assures liquidity at any given time; All officers and employees are expected to be honest and truthful in their dealings with the Bank. They shall not engage in, facilitate or aid in facilitating the commission of fraud, deceit or other forms of dishonesty which will directly affect the Bank. Every employee must at all times furnish correct and complete information on the documents and other papers deemed necessary by the Bank; Senior Management provides risk oversight on all IT-related activities of the Bank, particularly on information and associated assets for the purpose safeguarding such information and maintaining their confidentiality; willful destruction of the Bank's assets, property and equipment is punishable by dismissal under the Code of Conduct. | All officers and employees are expected to be honest and truthful in their dealings with the Bank; they shall not engage in, facilitate or aid in facilitating the commission of fraud, deceit or other forms of dishonesty which will directly affect the Bank; every employee must at all times furnish correct and complete information on the documents and other papers deemed necessary by the Bank; willful destruction of the Bank's assets, property and equipment is punishable by dismissal under the Code of Conduct. |

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (g) Employment & Labor Laws & Policies | Through the Manpower, Compensation and Remuneration Committee, a director is required to establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of officers and directors and provide oversight over remuneration of senior officers and other key personnel ensuring that compensation is consistent with Bank's culture, strategy and control environment, develop a form of full business interest disclosure as part of pre-employment requirements for all incoming officers, which compel all officers under the penalty of perjury all their existing business interest or shareholdings that may directly or indirectly conflict in their performance of duties once hired; review Human Resource Group Personnel Hand Book to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and requirements that must be periodically met in their respective posts. | Implements and comply with the: (1) policies and procedures formulated by the BOD establishing the rights and obligations of PBB employees under the Labor Code of the Philippines, (2) salary and benefits structures adopted by the BOD for PBB officers and employees, (3) hiring, training and other administrative policies and procedures, including the implementing rules and regulations on anti-sexual harassment law adopted by the BOD. | All employees of are required to adhere to/ comply with the internal policies and procedures of the Bank, including the Code of Conduct. |

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (h) Disciplinary action | The Chief Compliance Officer identifies and reports violations of the Manual of Corporate Governance to the Corporate Governance/ Nomination Committee, which shall conduct hearings and shall recommend to the Chairman of the Board the imposable penalty for such violation.Penalties are as follows: First Offense – Reprimand;Second Offense – Suspension from office; Third Violation- Removal from office. | Disciplinary actions against All employees of the Bank, including Senior Officers for violations of internal policies as well as banking laws, rules and regulations and issuances issued by other regulatory agencies are prescribed in the Code of Conduct. | Disciplinary actions against All employees of the Bank, including Senior Officers for violations of internal policies as well as banking laws, rules and regulations and issuances issued by regulatory agencies are prescribed in the Code of Conduct. |
| (i) Whistle Blower | The Bank has a BOD-approved Whistle Blower Program which: (1) encourages employees, including senior officers to bring suspected malpractices, ethical and legal violations they are aware of to an internal authority, (2) prevents exposing the Bank to risk or damage that may occur when employees, including senior officers circumvent internal control mechanism or violate certain code of conduct; and (3) helps promote and develop a culture of transparency, accountability and integrity within the Bank.<br><br>This Whistle Blower policy also covers the members of the BOD. | The Bank has a BOD-approved Whistle Blowing Program which: (1) encourages employees, including senior officers to bring suspected malpractices, ethical and legal violations they are aware of to an internal authority, (2) prevents exposing the Bank to risk or damage that may occur when employees, including senior officers circumvent internal control mechanism or violate certain code of conduct; and (3) helps promote and develop a culture of transparency, accountability and integrity within the Bank. | The Bank has a BOD-approved Whistle Blowing Program which: (1) encourages employees, including senior officers to bring suspected malpractices, ethical and legal violations they are aware of to an internal authority, (2) prevents exposing the Bank to risk or damage that may occur when employees, including senior officers circumvent internal control mechanism or violate certain code of conduct; and (3) helps promote and develop a culture of transparency, accountability and integrity within the Bank. |

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (j) Conflict Resolution | A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take position even though it might be unpopular. Corollary to this, he should support plans and ideas that he thinks will be beneficial to the Bank; | The Bank has a BOD-approved Grievance and Employee Complaint Policy which defines the actions and responsibilities of all concerned personnel in the proper disposition of employee complaints and grievances. | The Bank has a BOD-approved Grievance and Employee Complaint Policy which defines the actions and responsibilities of all concerned personnel in the proper disposition of employee complaints and grievances |

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

Yes. The Revised Code of Conduct has been circularized by the Bank's Systems & Methods Center last March 10, 2014. All units were given an acknowledgement receipt where they also certified that they have thoroughly read and understood the Revised Code of Conduct. Copy of the acknowledgement receipt is filed in each employee's 201 file.

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

The immediate superior has the primary responsibility to enforce discipline within his jurisdiction. He is responsible for informing and making his subordinates understand about the provisions of the Code and all other policies, rules, regulations, and guidelines promulgated by the Bank. Correspondingly, he/she shall be given sufficient authority to effectively exercise his capacity and discretion in implementing corrective actions when necessary. It is expected, however, that in all cases necessitating disciplinary action, there is a thorough investigation made and employee counseling conducted.

Ignorance of or unfamiliarity with the provisions of the Code shall not be an excuse for violations.

4) Related Party Transactions

(a) Policies and Procedures

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

| Related Party Transactions | Policies and Procedures |
|---|---|
| (1) Parent Company | N/A (PBB has no parent company) - Dealings of the Bank with its major stockholder is covered by the general policy on DOSRI (see item 4 below). |
| (2) Joint Ventures | N/A (PBB has not entered into a joint venture agreement with any person or entity). |
| (3) Subsidiaries | N/A (PBB has no subsidiary) |
| (4) Entities Under Common Control | The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that the transactions should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.<br><br>Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.<br><br>Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15th banking day from end of reference quarter. |

| Related Party Transactions | Policies and Procedures |
|---|---|
| (5) Substantial Stockholders | The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that they should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Off-market rates policy applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.<br><br>Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.<br><br>Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15th banking day from end of reference quarter. |

| Related Party Transactions | Policies and Procedures |
|---|---|
| (6) Officers including spouse/ children/ siblings/ parents | The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that they should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.<br><br>Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.<br><br>Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15th banking day from end of reference quarter. |

| Related Party Transactions | Policies and Procedures |
|---|---|
| (7) Directors including spouse/ children siblings/ parents | The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that they should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.<br><br>Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.<br><br>Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15$^{th}$ banking day from end of reference quarter. |
| (8) Interlocking director relationship of Board of Directors | The Bank adopts and implements the provisions of Section X145 – Interlocking Directorship and/or Officerships of the MORB, particularly item a – Interlocking Directorship which prescribes certain measures which are necessary to safeguard against the disadvantages that could result from indiscriminate concurrent directorship, such as: (1) except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between banks or between a bank and a QB or an NBFI, (2) without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases: (a) Banks not belonging to the same category: Provided, That not more than one (1) bank shall have quasi-banking functions; (b) A bank and an NBFI; (c) A bank without quasi-banking functions and a QB; and (d) A bank and one (1) or more of its subsidiary bank/s, QB/s and NBFI/s.<br><br>For purposes of the foregoing, a husband and his wife shall be considered as one (1) person. |

(b) Conflict of Interest

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

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

| Name of Director | Details of Conflict of Interest (Actual or Probable) |
| --- | --- |
| 1. Jeffrey S. Yao | Mr. Jeffrey S. Yao is also non-executive director of:<br>1. AMY Holdings, Inc.<br>2. Zest-O Corporation<br>3. Semexco Marketing Corporation<br>4. ARC Holdings, Inc.<br>5. Onnea Holdings, Inc.<br>6. Zemar Devt, Inc.<br>7. Bev-Pack, Inc.<br>8. Asiawide Refreshments Corporation<br>9. Amchem Marketing, Inc. |
| 2. Leticia M. Yao | Ms. Leticia M. Yao is also a non-executive/executive director of:<br>1. AMY Holdings, Inc.<br>2. Harman Foods Phils, Inc.<br>3. Uni-Ipel Industries, Inc..<br>4. Zest-O Corp.<br>5. SMI Dev't Corp. |
| 3. Amador T. Vallejos | Mr. Amador T. Vallejos is also an executive director of:<br>1. SMI Development Corp.<br>2. King of Travel<br>3. Professional Risk Managers International Association (PRMIA)<br>4. Downtown Realty Corporation<br>5. Amchem Marketing, Inc. |
| 4. Roberto A. Atendido | Mr. Roberto A. Atendido is a director of:<br>1. Pharma-Rex, Inc.<br>2. Macay Holdings, Inc.<br>3. Asian Alliance Holdings<br>4. Asian Alliance Investment, Inc.<br>5. Paxy's Inc.<br>6. Sinag Energy Phils, Inc.<br>7. Myka Advisory & Consultancy Services, Inc.<br>8. Paper Industries Corp. of the Phils.<br>9. GEM Communications Holdings Corp. as non-executive director |
| 5. Honorio O. Reyes-Lao | Mr. Honorio O. Reyes-Lao is an independent director of DMCI Holding Corp. |
| Name of Officer/s | N/A |

| Name of Director | Details of Conflict of Interest (Actual or Probable) |
|---|---|
| Name of Significant Stockholder/s<br>1. Mr. Alfredo M. Yao | Mr. Alfredo M. Yao is a significant stockholder of:<br>1. Money Movers, Inc.<br>2. AMY Holdings, Inc.<br>3. Zest-O Corporation<br>4. Semexco Marketing Corporation<br>5. Arc Holdings, Inc.<br>6. SMI Development Corporation<br>7. Downtown Realty Corporation<br>8. Bev-Pack, Inc.<br>9. Asiawide Refreshments Corporation<br>10. Mega Asia Bottling Corporation<br>11. Amchem Marketing, Inc.<br>12. Harman Foods, Inc.<br>13. Zest Airways, Inc.<br>14. Uni-Ipel Industries, Inc.<br>15. Solmac<br>16. Onnea Holdings, Inc.<br>17. Zemar Devt, Inc.<br>18. Pharma-Rex |
| 2. Zesto Corporation | Zesto Corporation is a majority stockholder of Mazy's Capital Inc. which has controlling interest in Asiawide Refreshments Corporation. |

(ii) Mechanism

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

| | Directors/Officers/Significant Shareholders |
|---|---|
| Company | The directors and officers of the Bank are required to disclose their existing business interests or shareholdings that may directly or indirectly conflict in the performance of their duties on the date of their assumption/employment; he should avoid situations that would give rise to conflict of interest; they should immediately disclose any occurrence of conflict of interest, whether it be real, apparent or potential, to the BOD through the Chairman.<br><br>The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that they should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.<br><br>Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15$^{th}$ banking day from end of reference quarter.<br><br>Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates. |
| Group | The Bank maintains a database for companies owned by its major stockholders.<br><br>The general policy of the Bank with regard to its dealings with its Related Interest (sister companies and their directors, officers and other significant stockholders) is that they should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others.<br><br>Loans, real estate and chattel transactions of the Bank with its Related Interest require the approval of the majority of the members of the BOD, excluding the concerned director/s. |

4) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[3] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship |
|---|---|---|
| Alfredo M. Yao & Zesto Corp. | Business | Alfredo M. Yao is the Chairman of the BOD of Zesto Corp |

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

| Names of Related Significant Shareholders | Type of Relationship | Brief Description |
|---|---|---|
| Alfredo M. Yao | Contractual/Business | Credit/Deposit Facility |
| Zesto Corporation | Business | Credit/Deposit Facility |

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

| Name of Shareholders | % of Capital Stock affected (Parties) | Brief Description of the Transaction |
|---|---|---|
| N/A | N/A | N/A |
| | | |

5) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

| | Alternative Dispute Resolution System |
|---|---|
| Corporation & Stockholders | There had been no issues or conflicts yet that the Bank experienced with its stockholders. If ever there will be one in the future, it will be resolved by the BOD through a resolution, which may be implemented by the Board itself or Management. |
| Corporation & Third Parties | The Bank set up a help/complaint desk for the purpose of receiving and expeditiously addressing customer/third party complaints. |

3 *Family relationship up to the fourth civil degree either by consanguinity or affinity.*

# OUR CORPORATE GOVERNANCE

| | |
|---|---|
| Corporation & Regulatory Authorities | The Bank designated its Chief Compliance Officer as its link to its regulators, such as the Bangko Sentral Ng Pilipinas, Philippine Deposit Insurance Corporation and Securities and Insurance Commission. As such, the CCO maintains a constructive working relationship with the regulators wherein he may consult, whenever necessary, such regulators for clarification of specific provisions of laws and regulations. |

## C. BOARD MEETINGS & ATTENDANCE

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

The schedules of BOD meetings are set during the organizational meeting of the BOD, which is held immediately after the annual stockholders' meeting.

2) Attendance of Directors

| Board | Name | Date of Election | No. of Meetings Held during the year | No. of Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman | Francis T. Lee | 05.30.14 | 13 | 12 | 92.31 |
| Member | Peter N. Yap | 05.30.14 | 13 | 11 | 84.62 |
| Member | Rolando R. Avante | 05.30.14 | 13 | 13 | 100 |
| Member | Jeffrey S. Yao | 05.30.14 | 13 | 10 | 76.92 |
| Member | Leticia M. Yao | 05.30.14 | 13 | 11 | 84.62 |
| Member | Amador T. Vallejos, Jr. | 05.30.14 | 13 | 11 | 84.62 |
| Member | Roberto A. Atendido | 06.28.13 | 13 | 12 | 92.31 |
| Member | Honorio O. Reyes-Lao | 05.30.14 | 13 | 12 | 92.31 |
| | Paterno H. Dizon | 05.30.14 | 13 | 13 | 100 |
| | Benjamin R. Sta. Catalina, Jr. | 05.30.14 | 13 | 11 | 84.62 |

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times? No

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

No. A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

5) Access to Information

(a) How many days in advance are board papers[4] for board of directors meetings provided to the board? At least five (5) days.

(b) Do board members have independent access to Management and the Corporate Secretary? Yes. The Board of Directors (BOD) regularly meets with senior management to engage in discussions, question and critically review the reports and information provided by the latter.

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

Under the BOD-approved table of organization of the Bank, the Corporate Secretary directly reports to the BOD. Hence, by "default" BOD has independent access to the Corporate Secretary.

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

The Corporate Secretary is the custodian of, and maintains, corporate books and record. He is the recorder of the Bank's formal actions and transactions. He does not assist the Chairman in preparing the board agenda. Rather, he prepares the agenda based on pre-set rules, i.e., matters that require board action or information that is of high corporate value is calendared for discussion during board meetings.

Facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes are functions of the Corporate Governance Committee through the Chief Compliance Officer.

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative. Yes. The Corporate Secretary of the Bank is a lawyer by profession. He is registered as such with the Integrated Bar of the Philippines and has been in the banking industry for more that twenty years with experience in various aspects of banking operations.

(e) Committee Procedures

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

Yes [X] No [ ]

| Committee | Details of the procedures |
|---|---|
| Executive | The requirement of "at least five (5) days board documents for board meetings" also applies to all meetings of board committees, such as the Executive, Audit, Risk Oversight, Nomination/Corporate Governance, Trust and Manpower, Remuneration and Compensation Committees.<br><br>One of the duties and responsibilities of a director is "to attend and actively participate in board and committee meetings, request and review meeting materials, ask questions and request explanations." |
| Audit | -do- |
| Nomination | -do- |
| Remuneration | -do- |
| Others (specify) | N/A |

6) External Advice

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

| Procedures | Details |
|---|---|
| The directors, through the committees they are members, where appropriate can have access to external expert advice. | A professional external advice may be secured by the Risk Oversight Committee, particularly in relation to strategic transactions, such as mergers and acquisitions. |

7) Change/s in existing policies

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

| Existing Policies | Changes | Reason |
|---|---|---|
| 10% limit on real estate exposure based on total loan portfolio of the Bank | 20% limit on real estate exposure based on total loan portfolio of the Bank. | To meet the growing demand of Bank of clients for real estate credit facility. |

## D. REMUNERATION MATTERS

1) Remuneration Process

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

| Process | CEO | Top 4 Highest Paid Management Officers |
|---|---|---|
| (1) Fixed remuneration | The Manpower, Remuneration and Compensation Committee (MRCC) approved the compensation package of the CEO and other officers of the Bank. | The Manpower, Remuneration and Compensation Committee approved the compensation (MRCC) package of Bank Officers. |
| (2) Variable remuneration | None | None |
| (3) Per diem allowance | None | None |
| (4) Bonus | Already included in the compensation package approved by MRCC. | Already included in the compensation package MRCC. |
| (5) Stock Options and other financial instruments | None | None |
| (6) Others (specify) | N/A | N/A |

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

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

| | Remuneration Policy | Structure of Compensation Packages | How Compensation is Calculated |
|---|---|---|---|
| Executive Directors (ED) | The Manpower, Remuneration and Compensation Committee (MRCC) approved the compensation package of the Executive Directors and other officers of the Baank. | 15-months fixed salary, including bonuses; fixed allowances. | Based on agreed amount as negotiated by the Bank's hiring person/ body. Subsequent increase is based on the approved package. |
| Non-Executive Directors (NED) | An NED receives per diem allowance of P20,000.00 for his attendance at each meeting of the Board and P5,000.00 allowance for attendance in a committee meeting. An NED is also entitled to a P5,000.00 monthly gasoline allowance. | Fixed Allowance | Benchmarked with peers |

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Yes. Provide details for the last three (3) years.

| Remuneration Scheme | Date of Stockholders' Approval |
|---|---|
| The Board allocates and receives an amount from the net income of the Bank before income tax during the preceding year. Such compensation is determined and apportioned among the directors (except executive directors). | April 27, 2012<br>June 28, 2013<br>May 30, 2014. |
| Each director receives per diem allowance for his attendance at each meeting of the Board. | April 27, 2012<br>June 28, 2013<br>May 30, 2014 |

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

| Remuneration Item | Executive Directors | Non-Executive Directors (other than independent directors) | Independent Directors |
|---|---|---|---|
| (a) Fixed Remuneration | 4,680,000.00 | | |
| (b) Variable Remuneration | | | |
| (c) Per diem Allowance | | 1,785,000.00 | 805,000.00 |
| (d) Bonuses | 1,170,000.00 | | |
| (e) Stock Options and/or other financial instruments | | | |
| (f) Others (Specify) | 20,954.40 | | |
| Total | 5,870,954.40 | 1,785,000.00 | 805,000.00 |

| Other Benefits | Executive Directors | Non-Executive Director (other than independent directors) | Independent Directors |
|---|---|---|---|
| (a) Advances | | | |
| (b) Credit granted | | | |
| (c) Pension Plan/s Contributions | | | |
| (d) Pension Plans, Obligations incurred | | | |
| (e) Life Insurance Premium<br>Coverage | 21,337.00<br>4,000,000.00 | 47,000.00<br>20,700,000.00 | 20,000.00<br>4,700,000.00 |
| (f) Hospitalization Plan | 300,000.00 | 237,314.86<br>1,800.000.00 | 128,022.00<br>600,000.00 |
| (g) Car Plan | 3,000,000.00 | | |
| (h) Others (Specify) | | | |
| Total | | 284,314.86<br>22,500,000.00 | 148,022.00<br>5,300,000.00 |

4. Stock Rights, Options and Warrants

(a) Board of Directors

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

| Director's Name | Number of Direct Option/ Rights/Warrants | Number of Indirect Option/Rights/Warrants | Number of Equivalent Shares | Total % from Capital Stock |
|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A |

(b) Amendments of Incentive Programs

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

| Incentive Program | Amendments | Date of Stockholders' Approval |
|---|---|---|
| N/A | N/A | N/A |

5. Remuneration of Management

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

| Name of Officer/Position | Total Remuneration |
|---|---|
| Alice P. Rodil | ₱ 9,330,320.10 |
| Raymond T. Co | |
| Joseph Edwin S. Cabalde | |
| Felipe V. Friginal | |
| Agustin E. Dingle, Jr. | |

## E. BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

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

| Committee | No. of Members | | | Committee Charter | Functions |
|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | |
| Executive | 2 | 1 | - | The Board of Directors shall delegate some of its powers and responsibilities to the Executive Committee as provided for in the by-laws. The Executive Committee shall have at least three (3) members from the Board of Directors. | Performs functions delegated by the BOD as provided for in the By-Laws of the Bank. |
| Audit | | 3 | 2 | The audit committee shall be composed of at least three (3) members of the BOD, two (2) of whom shall be independent directors, including the Chairperson, preferably with Accounting, Auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. The CEO, CFO and/or Treasurer, or officers holding equivalent positions shall not be appointed as members of the audit committee. | The audit committee provides oversight over the institution's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting-up of the internal audit department and the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system of the Bank. |

| Key Responsibilities | Power |
|---|---|
| Supervises other board committees subject to limitations and restrictions as may be imposed by the Board of Directors. | Acts on all corporate matters subject to limitations as may be imposed by the Board of Directors. |
| 1. Review and approve the audit scope and frequency<br><br>2. Establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. | 1. Explicit authority to investigate any matter within its terms of reference;<br><br>2. Full access to and cooperation by management;<br><br>3. .Full discretion to invite any director or executive officer to attend its meetings; and 4.Adequate resources to enable it to effectively discharge its functions. |

# OUR CORPORATE GOVERNANCE

| Committee | No. of Members | | | Committee Charter | Functions |
|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | |
| Corporate Governance/ Nomination | | 2 | 2 | The Corporate Governance/Nomination Committee is a committee created by the Board of Directors of Philippine Business Bank to perform specific functions set out hereunder. It consists of at least three (3) members of the Board of Directors, two (2) of which shall be independent Directors. As such, its regular members (including the chairperson) shall be appointed by the Board of Directors and shall report directly thereto.<br><br>The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business.<br><br>It assists the Board of Directors in fulfilling its corporate governance responsibilities by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors | The committee is responsible for the development, implementation and review of the Bank's Corporate Governance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business. |

| Key Responsibilities | Power |
|---|---|
| 1. Assist the Board of Directors in fulfilling its corporate governance responsibilities.<br><br>2. Pre-screen and shortlist all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications provided for under 5.2.1.6 and 5.2.1.7. Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.<br><br>3. Ensure the Board's effectiveness and due observance of corporate governance principles and guidelines<br><br>4. Annually conduct a performance evaluation of the Board and its Committees and Executive Management, and through its chairperson, to communicate such evaluation to the full Board. The Committee shall conduct the performance evaluation in a manner it deems appropriate.<br><br>5. Conduct an annual self-evaluation of the performance of the Committee at least thirty (30) days prior to the annual stockholders' meeting.<br><br>6. In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.<br><br>7. It shall consider the following guidelines in the determination of the number of directorships for the Board:<br>• The nature of the business of the corporation of which he is a director;<br>• Age of the director;<br>• Number of directorship/active memberships and officerships in other corporations or organizations; and<br>• Possible conflict of interest.<br><br>8. Performs compliance functions.<br>• Oversees the Bank's compliance efforts with respect to the Manual of Corporate Governance, Code of Conduct, "Whistle-Blowing" Program and Complaint Policy and related laws, rules and regulations as well as company policies and procedures;<br>• Meet with compliance officers to review programs designed to raise the culture of ethics and compliance within the Bank, and install an enforcement mechanism to sanction non-compliance and unethical behavior while rewarding the deserving officials and employees;<br>• Review the Bank's Code of Conduct, Manual of Corporate Governance. "Whistle – Blowing" Program and recommend any changes it deems necessary to the Board;<br>• Ensure adherence to the Bank's Code of Conduct and faithful observance on the Manual of Corporate Governance.<br>• Determine if there is any potential conflict of interest by a Director, and institute a process for handling these situations in accordance with existing law, rules and regulations and in line with global as well as ethical and other regulatory standards;<br>• Receive reports from the Chief Compliance Officer and other members of Management regarding compliance issues that may arise; and<br>• Provide guidance and support to the relevant work of the Compliance Office.<br>• Prepare and issue the report and evaluation required under the "Committee Reports" | 1. Determine whether or not a Director is able to and has been adequately carrying out his/her duties as Director.<br><br>2. Make recommendations to the Board regarding the continuing education of Directors, assignment to Board Committees, succession plan for the Board Members and Senior Officers.<br><br>3. Make recommendation to the Board, from time to time, as to changes that the Committee believes to be desirable in the size of the Board or any committee or to the establishment of any new committees thereof. |

# OUR CORPORATE GOVERNANCE

| Committee | No. of Members | | | Committee Charter | Functions |
|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | |
| Manpower, Compensation and Remuneration | 2 | 2 | | The Manpower, Compensation and Remuneration Committee shall be composed of at least three (3) members from the Board of Directors. | 1. Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.<br>2. Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired. |

| Key Responsibilities | Power |
|---|---|
| 1. Ensure that information and proxy statements of a clear, concise and understandable disclosure of compensation of the Bank's executive officers for the previous fiscal year and the ensuing year are included in Bank's annual reports,<br><br>2. Ensure that the existing Human Resources Development or Personnel Handbook are reviewed regularly to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their \| respective posts. | 1. Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the bank successfully.<br><br>2. Disallow any director to decide his or her own remuneration. |

# OUR CORPORATE GOVERNANCE

| Committee | No. of Members | | | Committee Charter | Functions |
|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | |
| Others (specify) Trust | 1 | 3 | | The Trust Committee shall be composed of at least five (5) members including the (1) president OR ANY SENIOR OFFICER OF THE BANK AND (2) the trust officer. The remaining committee members, including the Chairperson, may be any of the following: (1) non-executive directors or independent directors who are both not part of the Audit Committee; or (2) those considered as qualified "INDEPENDENT PROFESSIONALS". Provided, that, in case of more than five (5) Trust Committee membership, majority shall be composed of qualified non-executive members. | 1. Ensure that fiduciary activities are conducted in accordance with applicable laws, rules, and regulations, and prudent practices;<br>2. Ensure that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;<br>3. Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;<br>4. Adopt an appropriate organizational structure/ staffing pattern and operating budgets that shall enable the Trust and Investment Center to effectively carry out its functions;<br>5. Oversee and evaluate performance of the Trust Officer;<br>6. Conduct regular meetings at least once every quarter, or more frequently as the Committee deemed it necessary;<br>7. Report regularly to the BOD on matters arising from fiduciary activities.<br>8. Ensure that the responsibilities vested to the Trust Officer are properly performed. |

| Key Responsibilities | Power |
|---|---|
| The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank. | |

# OUR CORPORATE GOVERNANCE

| Committee | No. of Members | | | Committee Charter | Functions |
|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | |
| Risk Oversight | 4 | - | 2 | The Risk Oversight Committee shall be responsible for the development and oversight of the risk management program of the Bank and its trust unit. The Committee shall be composed of at least three (3) members of the BOD including at least one (1) independent director, and a chairperson who is non-executive member. The members of the Risk Oversight Committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. | 1. Oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.<br>2. Oversee the activities of the Risk Management Center and the Chief Risk Officer relative to the discharge of their functions. |

2) Committee Members

| Key Responsibilities | Power |
|---|---|
| 1. Responsible for the development and oversight of the risk management program of the Bank and its trust unit.<br>2. Identify and evaluate exposures of the Bank.<br>3. Develop risk management strategies.<br>4. Oversee the implementation of the risk management program of the Bank.<br>5. Review and revise the program as needed. | The Risk Oversight Committee shall, where appropriate, have access to external expert advice |

# OUR CORPORATE GOVERNANCE

(a) Executive Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman | Francis T. Lee | 05.30.2014 | 12 | 11 | 92 | 14 |
| Member (ED) | Rolando R. Avante | 05.30.2014 | 12 | 12 | 100 | 3 |
| Member (ED) | Peter N. Yap | 05.30.2014 | 12 | 11 | 92 | 4 |

(b) Audit Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman (ID) | Benjamin R. Sta. Catalina, Jr. | 05.30.2014 | 11 | 11 | 100 | 2 years |
| Member (NED) | Jeffrey S. Yao | 05.30.2014 | 11 | 8 | 73 | 15 years |
| Member (NED) | Amador T. Vallejos, Jr. | 05.30.2014 | 11 | 10 | 91 | 17 years |
| Member (NED) | Roberto A. Atendido | 05.30.2014 | 11 | 7 | 64 | 1.5 years |
| Member (ID) | Paterno H. Dizon | 05.30.2014 | 11 | 11 | 100 | 8 years |

Disclose the profile or qualifications of the Audit Committee members.

- Benjamin Sta. Catalina, Jr. – Graduate of B.S. Management Engineering from Ateneo de Manila University. Former VP of CitibanK, N.A. Held positions in various departments of the bank. Area of expertise in banking is in credit operations. Attended various seminars on banking operations, including risk management and corporate governance.

- Jeffrey S. Yao – Graduate of B.S. Management Engineering from Ateneo de Manila University. Holds directorship and top management level positions in various companies owned by his family. Attended various seminars on banking operations, including trust. Also attended trainings on AML, corporate governance and risk management.

- Amador T. Vallejos, Jr. – Graduate of B.A. Economics from Ateneo de Manila University. Holds directorship and top management level positions in several corporations and associations related to food technology. Attended various seminars on banking technology, AML, corporate governance and risk management.

- Roberto A. Atendido – Graduate of B.S. Management Engineering from Ateneo de Manila University. Holds directorship and top management level positions in various corporations. Attended various seminars on banking, AML, corporate governance and risk management.

- Paterno H. Dizon – Graduate of B.S. Economics from Ateneo de Manila University. Currently chairs the Board of Philippine Exporters Confederation, Inc. Attended various seminars on financial management, banking, AML, corporate governance and risk management.

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

The Audit Committee is responsible for the appointment/retention or termination of the external auditor, subject to ratification by the stockholders.

- The following are the Audit Committee's roles and responsibilities regarding the appointment of the external auditor:

    a) Subject to ratification by the stockholders, retain or terminate the Bank's external auditor and pre-approve all audit and non-audit services, including fees and terms thereof, to be performed for the Bank by the external auditor;

    b) Appoint, compensate and provide oversight of the work of the external auditor and resolution of disagreements between management and the external auditor regarding financial reporting. The external auditor shall report directly to the Audit Committee;

    c) The Bank shall provide for the appropriate funding, as determined by the Audit Committee, for payment of compensation for the external auditor for the purpose of rendering or issuing an audit report;

    d) Request the external auditor to attend a meeting of the committee;

    e) Review and discuss with management and the external auditor on the (i) annual audited financial statements, including disclosures made in management's discussion and analysis, (ii) effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Bank's financial statements;

    f) Review the experience and qualifications of the senior members of the external auditor team;

    g) Obtain and review a report from the external auditor at least annually regarding (a) the auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality control review, or peer review, of the Bank, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor, (c) any steps taken to deal with any such issues, and (d) all relationships between the external auditor and the Bank.

    h) Assure the regular rotation of those partners of the external auditor as required by regulations;

    i) Meet with the external auditor prior to the audit to discuss the planning and staffing of the audit;

    j) Obtain reports from the external auditor that the Bank is in conformity with applicable legal requirements and the Bank's Code of Conduct;

    k) Discuss with management and the external auditor any correspondence with regulators or government agencies and any employee complaints or published reports which raise material issues regarding the Bank's financial statements or accounting policies.

(c) Corporate Governance/Nomination Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman | Paterno H. Dizon | 05.30.2014 | 7 | 7 | 100 | 8 Years |
| Member (NED) | Amador T. Vallejos, Jr. | 05.30.2014 | 7 | 7 | 100 | 17 Years |
| Member (NED) | Roberto A. Atendido | 05.30.2014 | 7 | 4 | 57.14 | 1.5 Years |
| Member (ID) | Benjamin R. Sta. Catalina,Jr. | 05.30.2014 | 7 | 7 | 100 | 2 Years |

(d) Manpower, Compensation and Remuneration Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman | Amador T. Vallejos, Jr. | 05.30.2014 | 4 | 4 | 100 | 17 Years |
| Member (NED) | Francis T. Lee | 05.30.2014 | 4 | 4 | 100 | 14 Years |
| Member (ED) | Rolando R. Avante | 05.30.2014 | 4 | 4 | 100 | 3 Years |
| Member (ED) | Peter N. Yap | 05.30.2014 | 4 | 4 | 100 | 4 Years |

(e) Trust

Provide the same information on all other committees constituted by the Board of Directors:

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman | Honorio O. Reyes-Lao | 05.30.2014 | 6 | 6 | 100 | 4 |
| Member (NED) | Francis T. Lee | 05.30.2014 | 6 | 6 | 100 | 10 |
| Member (NED) | Leticia M. Yao | 05.30.2014 | 6 | 2 | 33 | 10 |
| Member (ED) | Rolando R. Avante | 05.30.2014 | 6 | 3 | 50 | 3 |
| Member | Teresita S. Sion | 05.30.2014 | 6 | 6 | 100 | 2 |

(f) Risk Oversight

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|---|---|---|---|---|---|---|
| Chairman | Amador T. Vallejos, Jr. | 05.30.2014 | 11 | 11 | 100 | 4 Years |
| Member (NED) | Jeffrey S. Yao | 05.30.2014 | 11 | 9 | 81.81 | 4 Years |
| Member (NED) | Roberto A. Atendido | 05.30.2014 | 11 | 10 | 90.90 | 3 Years |
| Member (NED) | Honorio O. Reyes-Lao | 05.30.2014 | 11 | 3 | 27.27 | 4 Years |
| Member (ID) | Benjamin R. Sta. Catalina,Jr. | 05.30.2014 | 11 | 8 | 72.72 | 3 Years |
| Member (ID) | Paterno H. Dizon | 05.30.2014 | 11 | 11 | 100 | 4 Years |

3) Changes in Committee Members

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

| Name of Committee | Name | Reason |
|---|---|---|
| Executive | N/A | N/A |
| Audit | N/A | N/A |
| Corporate Governance/ Nomination | N/A | N/A |
| Remuneration | N/A | N/A |
| Others (Risk Oversight) | N/A | N/A |

4) Work Done and Issues Addressed

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

| Name of Committee | Work Done | Issues Addressed |
|---|---|---|
| Executive | Held weekly meetings to review and approve recommendations/proposals from the different units of the Bank which are within the authority of the Committee. | CAPEX, OPEX and other budgetary or financial concerns; operational. |
| Risk Oversight | 1. Monthly committee discussion on risk oversight matters which included the following:<br>a. Identification of risks<br>b. Evaluation of risk exposures<br>c. Development of risk management strategies<br>d. Oversight of the implementation of risk management strategies<br>e. Best practice on risk management to ensure that the Bank adheres to what is required by regulators at a minimum and implements what is required of it based on its product scope and risk appetite.<br><br>2. Presented risk oversight reports to the Board and raised critical issues when needed.<br><br>3. The Committee had deliberations on proposed risk policies covering credit, market & liquidity, operational and other risks. | 1. Promoted asset/loan portfolio diversification through:<br>a. Provided guidance on internal management of real estate exposure through the implementation of internal limits. The objective of which is that the Bank's real estate exposure is within levels that management deems practicable.<br>b. Provided guidance on exposures of loan portfolio under the "Wholesale and Retail Trade" industry.<br><br>2. Provided guidance on how the Bank manages its risks with the approval of the revised Risk Management Manuals covering Credit, Market, Liquidity, and Operational and Other Risks in the promotion of Enterprise Risk Management. This manual is now used by the Bank as a guide on how it identifies, assesses, control, and monitor its risk exposures.<br><br>3. Employed best practice on operational risk assessment with the approval of the operational risk and control self-assessment implementing guidelines for the Bank which was later implemented bank-wide.<br><br>4. Allowed for the use of a new Treasury system as a tool for the measurement of market risks with the revision of the Treasury limit system and the model used to calculate for market risks (value-at-risk).<br>5. Alerted management on the AFS Loss Limit breach as a result of aversion of domestic and foreign interest rates and ensured that a guided plan is made available by management.<br><br>6. Ensured that management has a clear definition of "short-term profit taking" for use in its trading activities as required under regulations. This is to provide a clear delineation of which transactions should fall under "trading" activities thus be governed by the Bank's and the regulator's rules covering traded portfolio.<br><br>7. Ensured the Bank's compliance with regulatory requirement on business continuity management with its approval of the creation of a Business Continuity Task Force with its defined responsibilities and composition. |

# OUR CORPORATE GOVERNANCE

| Name of Committee | Work Done | Issues Addressed |
|---|---|---|
| Audit | Monthly discussions on audit findings and resolutions of such audit findings and recommendations to improve internal controls; updates on the Internal Audit's accomplishments. | • Branches' operations<br>• Head Office Units' operations, e.g., lending, treasury, trade finance (international and domestic), remittance, trust, clearing, cash management, FCDU, accounting, information technology, legal, remedial management, etc., including risk management and compliance.<br>• Anti-Money Laundering. |
| Corporate Governance/ Nomination | • Monitored the compliance of the Corporate Governance Manual<br>• Reviewed and approved the Revised Corporate Governance Manual;<br>• Reviewed and approved the revised performance appraisal rating system; and<br>• Pre-screened and endorsed persons nominated to the Board as well as candidates for other positions requiring appointment by the Board of Directors.<br>• Reviewed the training program of the Bank for its officers and employees. | • Compliance with the provisions of the Corporate Governance Manual.<br>• Integration of the Corporate Governance Compliance System into the Revised Corporate Governance Manual;<br>• Inclusion of the objectives and key performance indicators; and<br>• Fit and proper, including professional qualifications of candidates seeking election to, and appointment by the Board.<br>• Relevance and sufficiency of topics for a training module. |
| Remuneration | • Aligning the compensation of Senior Officer to the market<br>• Employee Promotion<br>• Implementation of Annual PAR<br>• Update Fringe Benefit Manual | • Addressed the compensation competitiveness of the Bank for senior Officers<br>• Recognized/ Reward deserving employees<br>• Adjustment of annual merit for the PAR coverage from monthly (anniversary date) to annual (calendar year)<br>• Incorporate newly approve policy (eg. 10 days leave for Women & Children Victim of Violence and Crime, update interest rate of Emergency Loan and Educ. Loan from 8% down to 6%) |
| Others (specify)-Trust | • Reviewed and approved the TIC budget for the year 2014<br>• Regularly review the performance of Trust<br>• The Trust Committee performed the annual review of the outstanding trust accounts.<br>• The Trust Committee thoroughly reviewed and approved all the investment outlets of Trust<br>• Performed extensive assessment of TIC counter parties | • Budget plan for Trust<br>• Entrust Trust income and expenses are within approved budget.<br>• Comprehensive and periodic independent accounts review.<br>• Proper evaluation of all the risks involved in each investment outlet, including client directed investments.<br>• Avoidance of counter-party risks by ensuring reliability of all TIC counter-parties |

5) Committee Program

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

| Name of Committee | Planned Programs | Issues to be Addressed |
|---|---|---|
| Executive | Review and approve proposals and recommendations from different units of the Bank which are -aimed at improving the operational efficiency of the Bank. | Operational, budgetary and other financial concerns. |
| Audit | Among the programs of the Audit Committee for the coming year through the Bank's Internal Audit Center:<br>• To establish a standard and impartial operating performance evaluation of branches and other auditee units;<br>• To determine compliance with established policies/procedures and regulations set by the bank as well as rules and regulations prescribed by regulatory bodies;<br>• To ensure that internal control is functioning as planned;<br>• To safeguard the assets of the Bank;<br>• To ensure the adequacy and effectiveness of existing policies and procedures. | • To conduct an examination of all auditable units based on various risk factors (i.e., last review date, latest audit rating, total financial exposure/ impact, seminars/ trainings attended, tenure of personnel in present position);<br>• To conduct special audit on auditable units identified as high risk.<br>• To continuously review the Internal Audit Manual and Audit Rating System in order to comply with the Bangko Sentral ng Pilipinas (BSP) and adhere to the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) and other Auditing Standards and regulations.<br>• To enhance and maintain a professional staff with sufficient knowledge and skills, improve the current internal processes and also to instill objectivity and impartiality in the performance of their work, audit personnel to attend seminars conducted by bank organizations and auditing firms.<br>• To monitor compliance on exceptions noted by the BSP in its examinations.<br>• Others<br>» To continuously review expenses (pre-audit/post-audit) of P10,000.00 and above;<br>» To monitor Branch compliance with the reportorial requirements of Internal Audit Center particularly the submission of Monthly Surprise Cash Count; Cash Shortages/Overages; Monthly Proving of Accounts; Sundries; Miscellaneous Expenses and reversal of Accounts Payable;<br>» To review the computation of last pay/separation pay of resigned/separated employees;<br>» To conduct a monthly surprise cash count of Cash Management Unit and MOB;<br>» To conduct a spot audit on Branches profiled as low risk;<br>» To conduct a daily review of TSG and Trust transactions;<br>» To review monthly reconciliation of the "Due from/to Head Office/Branches and Due from Local Bank." |

| Name of Committee | Planned Programs | Issues to be Addressed |
|---|---|---|
| Corporate Governance/ Nomination | • Continuous monitoring of compliance by all officers and employees of the Bank, including the members of the Board of Directors with the Corporate Governance Manual.<br><br>• Adoption by the Bank of relevant training programs for its employees and directors, including orientation program for new employees and yearly seminar for Bank's directors on Corporate Governance to be conducted by SEC-accredited training service providers. | • Compliance with the provisions of Corporate Governance Manual of the Bank.<br><br>• Sufficiency of knowledge of officers and staff of the Bank on the nature of its business, professional and managerial skills development and compliance with the requirement of SEC Memorandum No. 20 effective January 1, 2014; |
| Corporate Governance/ Nomination | • Identify, address and work towards improving the bank's ASEAN Corporate Governance scorecard. | • Enhance the corporate governance standards of the Bank. |
| Remuneration | Review the total rewards system of the Bank | • To be competitive in the market industry<br>• Employee retention<br>• Attract new talents |
| Others (Trust) | • Continue performing the annual review of existing trust accounts<br><br>• Ensure TIC's effective implementation of the revised Risk Management Framework for Trust and Investment Center<br><br>• Ensure TIC's strict adoption / compliance with the revised Trust Policies and Procedures Manual. | • Comprehensive and periodic independent accounts review.<br><br>• Adoption of comprehensive policies on risk management.<br><br>• Expediting the adoption and effective implementation of comprehensive and updated written policies and appropriate procedures on trust operations |
| (Risk Oversight) | 1. Monthly risk oversight reporting and cascading of the same to the Board.<br><br>2. Ensure compliance with regulatory requirements.<br><br>3. Review of risk policies.<br><br>4. Strengthen the Bank's risk awareness program. | 1. Strengthen the credit risk management of the Bank through<br>a. scoring process for the varied clientele of the Bank<br>b. establishment of credit review reporting for management to identify key risk areas as a result of the credit review process<br><br>2. Ensure that the Bank protects its capital and earnings from uneventful liquidity scenario through<br>a. Review of policies and assumptions governing the assessment of liquidity risks<br>b. Review of the liquidity contingency plan for the Bank to make sure that the Bank's liquidity risks are manageable and can be supported with practicable steps to ensure fulfillment of its contractual and fiduciary obligations.<br>3. Business Continuity Management Review<br>a. Review of steps undertaken to protect the Bank's stakeholders in the event of business disruption |

## F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;
The Bank has started with the Enterprise Risk Management in its approach to handling risks. Enterprise risk management (ERM) is the integrated process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. Enterprise risk management expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks.

The Bank, being in the early stage of ERM adoption, need to continuously apply updated processes and procedures and apply these consistently throughout the extended organization to achieve effective ERM. The complementary functions of risk-taking and risk management must continually be evaluated in order to promote the effectiveness of each business and service segments towards optimizing enhancing profits and managing risk.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;
(c) Period covered by the review;
(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and
Risk management policies and procedures are continuously reviewed depending on the frequency stated in the policy. The risk oversight committee conducts monthly discussions on the institution's current risk exposure based on regular management reports and assesses how the concerned units or offices reduced these risks.

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

2) Risk Policy

(a) Company

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

| Risk Exposure | Risk Management Policy | Objective |
|---|---|---|
| Credit risk<br>RWA =<br>31,085MM | The credit risk management policy shall serve as the guiding principles in managing risk inherent in lending for all levels and individual player in the lending activity of the institution. | To maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Thus, to maximize the risk-adjusted profit, the Bank needs to manage the credit risk inherent in the entire portfolio as well as the risks in individual credits or transactions. |

| Risk Exposure | Risk Management Policy | Objective |
|---|---|---|
| Operational and other risks<br>RWA =<br>1,807MM | Operational risk management policy shall serve as the guiding principle in managing potential loss of earnings or capital as a result of failures or weakness(es) of people, systems and internal processes or events external to the bank through which a bank operates. | The operational risk framework aims to develop an internal risk assessment methodology and operational risk data base management system linked to the operational risk management and business planning process, strengthen the risk control, ensure compliance with other local and global risk and capital regulation and Institutionalize a risk culture and sensitivity to potential losses including people empowerment, accountability and ownership of risks |
| Market and Liquidity risk<br>RWA =<br>844MM | The market and liquidity risk management process traces out a complete and coherent risk management plan that is performed at three different levels: 1) strategic level; 2) transactional level; and 3) portfolio level. It provides the minimum criteria that the Bank uses to prudently manage and control its exposure to the abovementioned risks. | To develop risk policies and measurement mechanics including risk approach, risk limits and risk reporting infrastructure in order to analyze the risk-adjusted performance and understand the contribution of market and liquidity risk within the business. |

(b) Group

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

| Risk Exposure | Risk Management Policy | Objective |
|---|---|---|
| N/A | N/A | N/A |
| | | |

(c) Minority Shareholders

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

| Risk to Minority Shareholders |
|---|
| Minority shareholders' interest may not be given due consideration. |
| |

3) Control System Set Up

(a) Company

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

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|---|---|---|
| Credit risk | The Bank is adopting the following BSP-prescribed reporting tools in identifying credit risk: a) Large Exposure, b) Credit Risk Concentration, c) BSP Risk Asset Classification (RAC) and Adequacy of Allowance for Probable Losses, d) ICRRS and e) Standard Credit Risk Weight | Credit risk management is implemented by multiple units of PBB, with the Board of Directors establishing credit policies and risk parameters including concentration limits to a single counterparty, a group of related counter-parties, a particular industry or business sector, and/or types and tenor of loan products that are being offered.<br>The Bank's Credit Committee comprised of the Chairman and Vice-Chairman of the Board, the President and a regular director, is responsible for the implementation of these credit policies and risk parameters. The Credit Committee reviews all loan applications and ensures the quality of the credit analyses and evaluation of lending officers and Credit Services Group who provide financial analyses, collateral review, documentation review and other aspects of the transaction.<br><br>The Credit Review Group on the other hand, is tasked to review the Bank's existing loan portfolio, identify loans at risk, evaluate for any current and potential concentration risk, and recommend changes in lending policies and practices. The Bank's Risk Management Center, headed by its CRO, as well as the Bank's Assets and Liabilities Committee, also provide independent review of the existing loan portfolio to identify actual and potential risks. The Bank's Legal Services Group is responsible for the management and recovery of distressed loans, including the sale or disposal of acquired assets. Additional controls are contributed by the Internal Audit Center which performs regular independent review of the accounts and the credit process. The Bank's Compliance Officer handles compliance testing. |

| Risk Exposure | Risk Assessment<br>(Monitoring and Measurement Process) | Risk Management and Control<br>(Structures, Procedures, Actions Taken) |
|---|---|---|
| Market and Liquidity risk | Interest rate risk is managed for both the Bank's trading portfolio and accrual portfolio. For the trading portfolio, the Bank employs a daily monitoring of the VaR which quantifies the potential maximum mark to market loss on the portfolio. The accrual portfolio, on the other hand, uses the EaR to measure the potential loss in the Bank's accrual income due interest rate movements.<br><br>PBB manages its exposure to foreign currency fluctuations primarily through compliance with existing regulatory guidelines which establish foreign currency exposure limits. In accordance with regulation, at the end of each banking month, PBB reports its foreign currency exposure to the BSP.<br><br>In addition to regulatory compliance, the Bank assesses its daily exposure to foreign currency risk by establishing the gap between foreign currency denominated assets and foreign currency denominated liabilities, and calculating the VaR on this net position.<br><br>The Bank manages its liquidity risk through the monitoring of various liquidity ratios, weekly and regular assessment of liquidity gaps by the Treasury unit, and the monthly assessments of the Maximum Cumulative Outflow ("MCO") over specified periods or tenor buckets by the Risk Management Center. The amount of net inflows which is the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute theBank's run off schedule, which indicates the Bank's net funding requirements in local and f<br>oreign currency. | The Bank manages market risk, or the adverse effect on the Bank's financial performance and standing, brought about by changes in the market prices of its investments, through the operations of various units in PBB.<br>The Board of Directors has established policies and controls which define acceptable market risk limits and will continue to review and revise these policies and controls with changes in the market and economic environment. Such limits include value-at-risk ("VaR"), stop loss limits, and position limits for each instrument and investment type that the Bank invests in, earnings at risk ("EaR") limit for interest rate sensitive balance sheet accounts of the Bank.<br>The Bank's Asset and Liability Committee and the Risk Management Committee through PBB's Risk Management Center oversee compliance to these policies and controls and recommend any necessary changes to the policy limits that have been set.<br><br>The Risk Management Center is responsible for providing risk assessment reports based on stress and sensitivity tests, scenario analyses, maximum loss tests on PBB's investment portfolio. This group also helps in the development of risk reduction strategies especially during periods of market volatility.<br><br>The Board of Directors establishes, on a periodic basis, liquidity risk and MCO limits, as well as approves contingency and funding plans including the maintenance of unused credit facilities and the use of such contingency funds. The Bank's treasury, its Asset and Liabilities Committee and Risk Management Committee are responsible for the compliance to the liquidity policies and limits established by the Board of Directors; these same parties also recommend any changes to such policies and limits.<br><br>PBB's treasury is specifically responsible for managing the Bank's liquidity and liquid assets. The treasury is also responsible for the preparation of analyses to test the Bank's ability to generate funds during simulated emergencies and adverse market conditions. |

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|---|---|---|
| Operational and other risks | ORCSA – is an internally driven process that incorporates checklists and workshops to identify the strengths and weaknesses of the operational risk environment. It aims to provide information on how the day-to-day operations of the Bank have or will affect capital whenever certain unexpected scenarios or events take place. It is also a means to identify the probability and frequency as well as the severity impact of these risk exposures which is important for the Bank to be able to allocate a portion of its capital for sustaining potential losses related thereto that may arise.<br><br>Branch operations are periodically audited to ensure compliance and the level of compliance is a key measure in the performance evaluation of branch officers. | To mitigate operations risk, as a general policy, the Bank has standardized transaction, reviews and evaluation, security, approval and other business processes; these are contained in departmental or unit operating manuals disseminated to the various groups within the Bank.<br>Employee training on these standards is conducted on a periodic basis. Review of these standardized processes is also conducted with appropriate improvements documented and implemented as necessary.<br><br>Also, once identified and measured by all units & branches of the Bank their key risk indicator(s) in the ORCSA form, both existing and proposed controls are also evaluated by the management to treat or mitigate identified risks. Priority is given to those rated Medium to High.<br><br>In addition, as a general policy, the Bank has adopted a multi-level approval process for all its financial transactions, with each level reviewing the transaction and its documentation before eventual approval. Dual signatories are always required for such transactions.<br><br>Also as a general policy, all critical business processes of the Bank are subject to internal review by an internal audit group reporting directly to the Board of Directors. In addition, the Bank's information system and its operations are also subject to operations and security audit conducted by the Bank's Risk Management Center. Regular training on information security and risk awareness is also conducted to mitigate this risk. Moreover, the Bank has policies on business continuity and disaster preparedness which are regularly tested to ensure that management could protect its stakeholders during untoward events. |

(b) Group

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

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|---|---|---|
| Credit | The Bank is adopting the following BSP-prescribed reporting tools in identifying credit risk: a) Large Exposure, b) Credit Risk Concentration, c) BSP Risk Asset Classification (RAC) and Adequacy of Allowance for Probable Losses,<br>d) ICRRS e) Standard Credit Risk Weight , and (f) | Credit risk management is implemented by multiple units of PBB, with the Board of Directors establishing credit policies and risk parameters including concentration limits to DOSRI, a single counterparty, a group of related counter-parties, a particular industry or business sector, and/or types and tenor of loan products that are being offered.<br><br>The Bank's Credit Committee comprised of the Chairman and Vice-Chairman of the Board, the President and a regular director, is responsible for the implementation of these credit policies and risk parameters. The Credit Committee reviews all loan applications and ensures the quality of the credit analyses and evaluation of lending officers and Credit Services Group who provide financial analyses, collateral review, documentation review and other aspects of the transaction.<br><br>The Credit Review Group on the other hand, is tasked to review the Bank's existing loan portfolio, identify loans at risk, evaluate for any current and potential concentration risk, and recommend changes in lending policies and practices. The Bank's Risk Management Center, headed by its CRO, as well as the Bank's Assets and Liabilities Committee, also provide independent review of the existing loan portfolio to identify actual and potential risks. The Bank's Legal Services Group is responsible for the management and recovery of distressed loans, including the sale or disposal of acquired assets. Additional controls are contributed by the Internal Audit Center which performs regular independent review of the accounts and the credit process. The Bank's Compliance Officer handles compliance testing. |

(c) Committee

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

| Committee/Unit | Control Mechanism | Details of its Functions |
|---|---|---|
| Risk Oversight Committee | The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. | a. Identify and evaluate exposures. The committee shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are the most likely to occur and are costly when they happen.<br>b. Develop risk management strategies. The risk oversight committee shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.<br>c. Oversee the implementation of the risk management plan. The risk oversight committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.<br>d. Review and revise the plan as needed. The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the board of directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary. |

## G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

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

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

Internal control system is the process effected by a company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.

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

The review and evaluation of the adequacy and effectiveness of the internal control system of the Bank are being performed by the Audit Committee through the internal and external auditors. The Committee provides oversight on the Bank's financial reporting policies, practices and control and internal and external auditors. The Committee receives audit reports and there was no major internal control issue reported both by the internal and external auditors of the Bank.

(c) Period covered by the review;

All audit reports of the Bank's Internal Auditor for the year 2014 as well as External Auditor's Report covering the same year had been received and reviewed by the Audit Committee.

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

The Bank's internal controls are reviewed at least annually.

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

2) Internal Audit

(a) Role, Scope and Internal Audit Function

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

| Role | Scope | Indicate whether In-house or Outsource Internal Audit Function | Name of Chief Internal Auditor/ Auditing Firm | Reporting process |
|---|---|---|---|---|
| Internal Control | Effectiveness and efficiency of operations; Reliability of financial reporting; Compliance with laws and regulations, and internal policies | In-house | Ms. Laurence R. Rapanut, AVP | Reported to the Board of Directors through the Audit Committee |
| Risk Management | Monitor and evaluate the effectiveness of the organization's risk management processes | In-house | Ms. Laurence R. Rapanut, AVP | Reported to the Board of Directors through the Audit Committee |
| Corporate Governance | Participation in meetings and discussions with members of the Board of Directors. | In-house | Ms. Laurence R. Rapanut, AVP | Reported to the Board of Directors through the Audit Committee |

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

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

The Internal Auditor submits periodic reports to the Audit Committee and Executive Management on the status and results of the internal audit program, significant control issues and the overall adequacy of the control environment. Reports relating to individual audits are addressed to applicable Senior Officers who are required to respond as to corrective actions taken. In addition, the Auditor reviews and discusses with the Audit Committee, summaries of significant control issues reported by regulatory authorities and the external auditors.

Yes, the internal auditor has direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel.

(d) Resignation, Re-assignment and Reasons

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

Internal Audit Center resignations (2014):

| Name of Audit Staff | Reason |
|---|---|
| Reilan V. Rosendo | Work opportunity abroad |
| Rose Ann C. Calderon | Work opportunity in another bank |
| Michelle S. Fabian | Work opportunity in another bank |
| Rose Camille D. Santos | Work opportunity in another bank |
| Merven R. Garcia | Work opportunity in another bank |

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

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

| | |
|---|---|
| Progress Against Plans | Total audited units/branches are 87 (br-70+HO-17) vs. total number of units/branches of 83 (br-65+HO-18), per 2014 audit plan or 104.81% attainment rate. |
| Issues[2] | There is no significant issues that arise from adopting different interpretations, as all audit findings pertains to lapses/non-observance of Bank's internal policies, procedures, rules and regulations. |
| Findings[3] | Findings have substantially been corrected/acted on by the concerned units. Those that remain uncorrected are being monitored and updates thereon are reported to the Audited Committee during the latter's regular monthly meeting. |

| | |
|---|---|
| Examination Trends | Among the pervasive audit findings are:<br>HEAD OFFICE<br>• Insurance documents of mortgaged improvements are either expired, not secured, procured from non-accredited insurance companies, not available for verification or official receipt supporting insurance premium payment was not secured/not available for verification;<br>• There are no updated legal documents executed by clients (i.e., latest Credit/Line Agreement, Deed of Assignment, Bills Purchase Agreement, etc.);<br>Collateral documents, such as TCTs/CCTs contained uncancelled encumbrances/ annotations, such as, subject to Sec. 4 Rule<br>• 74, Sec. 7 RA 26 on reconstitution of title, notice of adverse claim/ lis pendens/levy on attachment;<br>• There are no updated financial documents/business permit submitted by borrowers, (i.e., latest audited F/S, latest ITR and/or SAL of borrower and/or sureties/co-maker, latest copy of SEC's GIS, latest mayor's permit);<br>• Mortgaged real estate collateral has unupdated real estate tax payments/Tax Clearance and/or Tax Declaration (TD) or corresponding updated real estate tax receipts (RETR)/TD were not available for verification;<br>• Loan was granted to several accounts with unfavorable financial conditions, i.e., negative retained earnings/net worth, continuous net losses/low net income, among others, which may affect its repayment capacity<br>• Documents not conducted/submitted to ensure proper evaluation and documentation of the account, i.e., no updated credit checkings (residence/business/Bank/trade), no notarized affidavit of denial executed or updated court clearance for CMAP/NFIS positive borrowers;<br>• No latest Credit Facility Letter was prepared by the Account Officer as notice of loan approval;<br>• No latest annual appraisal report on mortgaged collateral conducted to determine its latest MVs/LVs;<br><br>BRANCHES<br>• The Compliance Coordinator/Branch Operations Officer failed to conduct consistently the testing/ review of transactions/processes of the Branch that resulted to several unreported findings/violations noted/verified by the auditor.<br>• Incomplete account opening documentary requirements/documentary deficiencies noted on individual and corporate accounts./Acct opening documents not presented for audit verification.<br>• Change in address/authorized signatories of account without supporting written request from the depositor/s and/or supporting Secretary's Certificate/Board Resolution for corporate account.<br>• Late opening and closing of vault door<br>• Exceptions on account opening of clients classified as "High Risk Accounts" (e.g. Walk-in clients)<br>• Accounts are noted availing the Bank's Case-to-case BP accommodation for five (5) times in the past three (3) months, without Branch's proper evaluation and recommendation for BP credit facility.<br>• Case-to-case BP Accommodation/BP Availments in excess of line/Availments against expired LAM without approval from authorized approving officers.<br>• CCTV camera has no playback mode or can only retrieve 2 weeks recording of the branch's past activities.<br>• Reversal/Waiver/Uncollected ARCC/ARCM/ MBP charges without supporting Head Office approval.<br>• Several expense not supported by written approval from HO approving body.<br>• Improper booking of Forex Transaction<br>• Incomplete information noted on signature cards/AIS or CARA of the following individual and corporate accounts (AIS/SSC not properly filled up)<br>• Payment Order Forms (POF) or transaction/posting media to support several branch expenses were not presented for audit verification. |

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

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

| Policies & Procedures | Implementation |
|---|---|
| Internal Audit Manual | Implemented |
| 2014 Audit Plan | Implemented |
| Audit Customer Satisfaction Questionnaire | Implemented |
| Audit Rating System | Implemented |
| Conduct an examination of all auditable units of the Bank based on the identified risk factors | Implemented |
| Conduct spot audit and monthly surprise cash counts of selected branches including CMU | Implemented |
| Conduct special examinations/investigations on units identified as high risks | Implemented |
| Enhancement of the system of monitoring/tracking of audit findings | Implemented |
| Review/Update the Internal Audit Manual to adhere/comply with the BSP Regulations. | Implemented |
| Review/Update the Internal Audit Manual to adhere/comply with the BSP Regulations, ISPPIA and other auditing standards and regulations at least once a year or as the need arises | Implemented |
| Internal Audit Risk Assessment Tool (RAT)/Audit Procedures | Implemented |
| Conduct secondary risk assessment on auditable units/branches | Implemented |
| Sending monthly reminder letters to concerned units/branches audited on their compliances (via Bank's email) addressed to the Head of auditee units/branches | Implemented |
| Conduct pre-audit of all expenses amounting to P10,000.00 and above | Implemented |
| Review computation of last pay/separation pay of resigned employees/reversal of Accounts Payable within three (3) days | Implemented |
| Review and monitor of daily, weekly, monthly reportorial requirements of Internal Audit Center submitted by branches/units, particularly on the submission of Monthly Surprise Cash Count; Cash Shortages/Overages; Monthly Proving of Accounts; Sundries; Miscellaneous Expenses and reversal of Accounts Payable | Implemented |
| Review of TSG and Trust transactions | Implemented |
| Review monthly reconciliation of the Due to/from Head Office/Branches and Due from Local Bank accounts | Implemented |
| Conduct briefings on audit processes and procedures separately for a group of Branch Managers and a group of BOOs and also with the newly hired BMs/BOOs/MOs on their pre-posting orientation | Implemented |
| Professional development of Internal Auditors by attending related trainings and seminars of at least two (2) days conducted by the Bank, auditing firms and other organizations (50% of audit personnel). | Implemented |
| Participate in other activities of the Bank on various system implementations for newly acquired and for system enhancements/upgrade of various software/systems of the Bank | Implemented |
| Monitor compliance on exceptions noted by the BSP in its examinations of the Bank | Implemented |

(g) Mechanisms and Safeguards

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

| Auditors (Internal and External) | Financial Analysts | Investment Banks | Rating Agencies |
|---|---|---|---|
| Internal Auditors<br><br>Auditors are not to engage in developing or installing procedures or preparing records, or in any other activity, which would normally be the subject of audits. Auditors are not to have direct responsibility or any authority over any of the activities or operations that they review. Auditors will assist Management in maintaining adequate and effective systems of controls through objective appraisals, recommendations and control consultations. | N/A | N/A | The Bank does not in any way interfere with the rating conducted by independent rating agencies or in any way connected with any rating agencies that renders its rating whenever the Bank secures one. |
| External Auditor<br><br>External Auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee through the Board of Directors.<br><br>The External auditor of the Bank shall not, at the same time, provide non-audit services to the Bank. However, in case the same cannot be avoided, the Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor. The Bank's external auditor shall be changed every five (5) years or earlier. If an external auditor believes that the statements made in the company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports. (corporate governance) | | | |

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

We, Francis T. Lee (Chairman) and Rolando R. Avante (President and CEO) attest to the company's full compliance with the SEC Code of Corporate Governance. We further state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure compliance.

H. ROLE OF STAKEHOLDERS

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

| | Policy | Activities |
|---|---|---|
| Customers' welfare | Philippine Business Bank has a responsibility to manage its impacts on stakeholders and consider their interests in decision-making. PBB defines stakeholders as groups or individuals who are affected by or can affect the achievements of the bank's objectives.<br><br>At PBB, we distinguish the following groups of stakeholders: Clients, Employees, Shareholders, Investors, Regulators, Government, Suppliers, Creditors and Society at Large (including NGO's and media).<br>The Bank recognizes their important roles to its business and in return its obligations to them.<br><br>It is the policy of the Bank to protect the rights and interests of its stakeholders.<br><br>PBB aims to be transparent and constantly engage with all its stakeholders. Engagement takes place in different forms, from ongoing dialogue to direct feedback requests. PBB takes feedback seriously and constantly and carefully balance the interests of our various stakeholders, recognize their contributions to the Bank's growth and attainment of the corporate objectives - as their support is necessary for our long term success.<br><br><u>Customers' Welfare</u><br><br>It is the policy of the Bank to be transparent in all its dealings. Thus, any changes in its policies that may affect customer relationship are immediately and fully disclosed.<br><br>The Bank ensures that its customers are afforded quality, innovative and responsive products. It nurtures long-term customer relationship founded on mutual trust and confidence. It also ensures that customers are provided with quality service aimed at improving customer satisfaction, retain clients, increase customer base and uphold and preserve Bank's reputation.<br><br>The Bank is committed to continuously serve its customers with utmost respect and high esteem, recognizing their individualities and qualities as it provide service distinctive to each of them. It likewise continues to strive hard to attain growth to be able to expand its branch network and improve its information technology and serve its customers wherever they are.<br>In 2013, the Bank attained its target growth as it opened a total of 100 branches in the different parts of the country with each branch capable of providing banking service to customers and non-customers alike even in the remote areas through improved information and communication technologies. Thus, on July 18, 2013, PBB was awarded the Philippines Domestic Technology and Operations Bank of the Year by Asian Banking and Finance, in a prestigious awards night held at the Shangri-La Hotel in Singapore.<br><br>PBB also participated in the Philippine Franchise Association Exposition held on July 19, 2013 at the SMX Center, Pasay City by the Philippine Franchise Association and in the "Let's Talk Business: Invest in Batangas City Forum" hosted by the City of Batangas in collaboration with the United states Agency for International Development | |
| Supplier/contractor selection practice | The Bank has procurement policies on fixed assets; furniture, fixture and equipment; supplies; IT software and hardware; security, janitorial and messengerial services and other similar contractual services, such that procurement of the same, if the amount warrants, will undergo the bidding process wherein the required number of pre-qualified bidders should be at least three (3).<br><br>Only accredited suppliers, contractors and other similar service providers can participate in the bidding process mentioned above. | |
| Environmentally friendly value-chain | The Bank acknowledges its responsibility to the country, particularly on its contribution to the growth of the nation's economy, adherence to various government policies on the preservation of environment, respect to the efforts of local government units and various non-governmental organizations to protect the natural resources; the communities and customers it serves, as fundamentals to its long-term sustainability. | |

# OUR CORPORATE GOVERNANCE

| | Policy | Activities |
|---|---|---|
| Community interaction | As an overview, Philippine Business Bank (PBB) made a donation thru its CSR arm AMY Foundation to KAISA para sa Kaunlaran for its Bangkabuhayan Project on December 17, 2013. Said donation would cover the cost of ten (10) bancas that would be given to the pre-identified victims in the fishing communities which were severely affected by the Typhoon Yolanda.<br><br>This project became a reality on July 31, 2014 when the donated bancas were finally turned over to the recipients from Camotes Island. Present during the ceremonial turnover were the four (4) Mayors of the following Municipalities of Camotes Island namely: Hon. Erwin Yu of Tudela, Hon. Jesus Fernandez Jr. of Pilar, Hon. Aly Arquillano of San Francisco and Hon. Luciano Rama Jr. of Poro, together with KAISA Incumbent Board of Director and past President Mr. Ganny Tan and KAISA Program Coordinator Ms. Eleanor Gonzales, with Mr. Rick Jordan Benarao, Branch Operations Officer of a PBB branch in Cebu, attended on behalf of the Bank and AMY Foundation. AMY Foundation is one of the active members of KAISA. | |
| Anti-corruption programmes and procedures | It is the policy of PBB to be transparent in all its dealings. It does not want to enter into banking relationship or be associated with persons, organizations or entities with questionable character or background. It is committed to conform to the highest standards of ethics and to comply with all the governing laws, rules and regulations and standards of practice.<br><br>PBB adopts and strictly implements its Money Laundering and Terrorist Prevention Program (MLPP), including training program for its employees on AML. | |
| Safeguarding creditors' rights | Philippine Business Bank's stakeholder community includes its customers, shareholders, employees, regulators, suppliers, creditors and communities. The Bank recognizes their important roles to its business and in return its obligations to them.<br><br>It is the policy of the Bank to protect the rights and interests of its stakeholders. The Bank works with and holds dialogue with them as it recognizes their contributions to its growth and attainment of its corporate objectives. | |

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

Yes. Social Corporate Responsibility is part of PBB's Annual Report.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?
- i) Company Clinic was set up staffed with a duly registered Physician (Internist) on retainer basis and a duly registered nurse of a full-time basis.
- ii) Annual Physical Examination/Executive Check up is enforced every year to promote health and wellness.
- iii) Health insurance coverage and medical allowance for permanent employees and defray expenses incurred as a result of hospitalization/medical treatment and consultation.
- iv) Policy on prevention and control of communicable diseases, i.e., Pulmonary Tuberculosis (PTB ), Hepatitis B and HIV/AIDS which is aimed at creating awareness in the organization by disseminating information to employees on how these diseases would affect their life and job and how the spread of said diseases in their work of place and home could be prevented.

(b) Show data relating to health, safety and welfare of its employees.

- Employee availment of the Annual Physical Examination decreased to 82% for 2014.
- 100% health insurance coverage for employees was registered.
- Low monthly consultation rate at an average of 38% bank-wide due to the increase in the health awareness

of the PBB community thru the major presence of HRG clinic.

(c) State the company's training and development programs for its employees. Show the data.

| Training Program/Seminar | Program/Seminar Objectives | Target Participants |
|---|---|---|
| AMLA Seminar | Provides participants with knowledge on the pertinent aspects of the Anti-Money Laundering Act | All Employees |
| Managing Customer Service Through Behavioral and Process Improvement | Provides participants with insights on customer service on a behavioral level and provides guidelines as to how to improve customer service through process improvement | Selected officers from branches and support units |
| Counterfeit Detection Seminar | Provides participants with the necessary knowledge and skill in identifying counterfeit bills and coins | Tellers, CSAs |
| Signature Verification Seminar | Provides participants with the necessary knowledge and skill in identifying and detecting forged signatures | Tellers, CSAs, Signature Verifiers |
| Professional Image Seminar | Provides participants with pointers on proper officer attire, decorum and behavior, and overall interaction with people | All Employees |
| Seminar on Selling Bank Services | Provides participants with knowledge and pointers/guides on effective selling | Branch Heads, Account Officers, Marketing Officers |
| Branch-Based Selling Seminar | Provides participants with knowledge and pointers/guides on effective selling at the branch level | CSAs, BOOs |
| Core Credit Course | Provides participants with the necessary technical knowledge pertaining to the lending and credit process | Account Officers |
| Branch Officers' Training Program | Provides participants with the necessary knowledge and preparation in becoming branch officers | Selected qualified rank-and-file employees who were nominated/ who applied for inclusion in the Program |
| Executing Customer Service Scripts for Branches | Cascades established customer service scripts for use in branch operations situations | Branch Heads |
| Leadership Seminar | Provides participants with knowledge and guidelines pertaining to effective leadership | Officers identified as possible successors |
| Basic Supervisory Skills Workshop | Provides participants with the basic principles and knowledge on supervision | Senior rank-and-file employees being groomed for officership, first-level officers |

| Training Program/Seminar | Program/Seminar Objectives | Target Participants |
|---|---|---|
| Workshop on Establishing Service Level Agreements (SLAs) Between Branches and Their Internal Service Providers | Establishes service level agreements (SLAs) between branches and support units who are their internal service providers | Selected Cluster/Branch Heads, selected officers from various support units |
| Fraud and Risk Awareness Seminar | Provides participants with the knowledge and skills in determining fraudulent documents that may be presented during branch operations | Tellers, CSAs, BOOs |
| New Employees' Orientation | Introduces participants to the Bank, its existing policies, its products and service, and its benefits package; Provides participants with initial/preparatory training prior to deployment to their branches. | Newly-hired employees |

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

Financial Reward (short-term, e.g. additional bonuses) is Management's discretion depending on the financial performance of the company.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.

The Bank's Policy on Disposition of Administrative Case defines the offenses covered in the policy, penalties to be impose, members of the committee and its responsibilities and policy guidelines. Offenses or irregularities upon discovery either through Audit Findings or outright behavioural misdemeanour should be reported to the Center Head and Group Head copy furnish Human resources and shall be subject to investigation. the members of the committee is responsible to (1) review and evaluate the complete facts of the case, the exact nature of the infraction and extent of the effect of the infraction (2) Consider all aggravating and/or mitigating factors (3) call all those involved in the case for investigation when necessary (4) Prepare a written report stating the facts of the case , the violation/ infraction and the corresponding disciplinary action after the proper investigation (5) submit the report to President/Vice Chairman and Chairman for approval.

The Bank's Policy on Grievance and Employee Complaints define the actions and responsibilities of all concerned personnel in the proper handling of employee complaints and grievance. The policy is designed to address legitimate grievance and complaints by the employees and not for the purpose of supporting baseless allegations and complaints. The Management provide a venue for employees to seek redress for alleged unfairness or dissatisfaction through the grievance procedure. It also gives fair and due process where there is a listening, serious attention, validation of facts and immediate response and corrective action. Retribution by Supervising Officer or Retaliation for Employee complaints shall be subject to corresponding disciplinary action in accordance with the Code of Conduct

## I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure
   (a) Holding 5% shareholding or more

| Shareholder | Number of Shares | Percent | Beneficial Owner |
|---|---|---|---|
| Alfredo M. Yao<br>Stockholder<br><br>84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City | 159,892,207 | 37.26% | The record owner is the beneficial owner of the shares indicated |
| Zest-O Corporation (Represented by Carolyn S. Yao)<br><br>574 EDSA Caloocan City<br>Stockholder | 108,035,282 | 25.17% | The record owner is the beneficial owner of the shares indicated |
| Francis T. Lee<br>Chairman of the Board<br><br>15 Masigla St. East Avenue, Quezon City | 30,375,000 | 7.08% | The record owner is the beneficial owner of the shares indicated |

| Name of Senior Management | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | % of Capital Stock |
|---|---|---|---|
| Rolando R. Avante | 125,072 | N/A | 0.03 |
| Peter N. Yap | 209,810 | N/A | 0.05 |
| Alice P. Rodil | N/A | N/A | negligible |
| Raymond T. Co | N/A | N/A | N/A |
| TOTAL | 334,882 | | 0.08 |

2) Does the Annual Report disclose the following:

| | |
|---|---|
| Key risks | Yes |
| Corporate objectives | Yes |
| Financial performance indicators | Yes |
| Non-financial performance indicators | Yes |
| Dividend policy | Yes |
| Details of whistle-blowing policy | No |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners | Yes |
| Training and/or continuing education programme attended by each director/commissioner | Yes |

| | |
|---|---|
| Number of board of directors/commissioners meetings held during the year | Yes |
| Attendance details of each director/commissioner in respect of meetings held | Yes |
| Details of remuneration of the CEO and each member of the board of directors/commissioners | No |

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

Details of whistle-blowing policy are posted in the Bank's intranet while the training program for BOD as embodied in the Manual of Corporate Governance, is included in the respective directors' bio-data that are annually submitted to the BSP. Remuneration of top five highest paid senior officers was disclosed in aggregate amount for security reason. For BOD, the nature of their compensation was described without specifying the amount also for security reason.

3) External Auditor's fee

| Name of auditor | Audit Fee | Non-audit Fee |
|---|---|---|
| Punongbayan & Araullo and Associates | Php2,475,405.57 | N/A |

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

- Company web-site
- E-mail
- Memorandum (for internal)
- Company intranet
- Annual Report
- Investors' briefing
- Regulatory disclosures (SEC and PSE)
- Meetings (for internal and external)
- Seminars/trainings/briefings ( for internal)
- Newspaper publications

5) Date of release of audited financial report: April 11, 2014
6) Company Website

Does the company have a website disclosing up-to-date information about the following?

| | |
|---|---|
| Business operations | Yes |
| Financial statements/reports (current and prior years) | Yes |

| | |
|---|---|
| Materials provided in briefings to analysts and media | No |
| Shareholding structure | Yes |
| Group corporate structure | No |
| Downloadable annual report | Yes |
| Notice of AGM and/or EGM | Yes |
| Company's constitution (company's by-laws, memorandum and articles of association) | No |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Analysts and members of the media are provided with hard copy of the briefing materials during the actual date of the briefing. Group corporate structure is reported to the Bangko Sentral Ng Pilipinas every quarter. Members of the Group where PBB belongs are disclosed in the company website as partners.

Company's By-Laws and Articles of Incorporation can be accessed and downloaded from the SEC website.

7) Disclosure of RPT

| RPT | Relationship | Nature | Value |
|---|---|---|---|
| Alfredo M. Yao | Chairman Emeritus | Loan | 150,000,000.00 |
| Asiawide Airways, Inc. | Alfredo M. Yao Group of Companies | Loan | 500,000,000.00 |
| Alfredo M. Yao | Chairman Emeritus | Loan | $2,050,000.00 |
| Zest Airways, Inc. | Alfredo M. Yao Group of Companies | Loan | 40,000,000.00 |
| Zest Airways, Inc. | Alfredo M. Yao Group of Companies | Loan | 60,000,000.00 |
| Zest Airways, Inc. | Alfredo M. Yao Group of Companies | Loan | 150,000,000.00 |
| Zest Airways, Inc. | Alfredo M. Yao Group of Companies | Loan | 200,000,000.00 |
| Sps. Amor M. Salud Jr. and Dulce Gidget Salud | Dulce Salud is VP-Marketing | Loan | 370,000.00<br>$16,595.61 |
| PBB Employee - Officers Loans | PBB Employee Loans under Fringe Benefit | Loan | 34,421,950.59 |
| Contingent Accounts | | | |
| ARC Refreshments | Alfredo M. Yao Group of Companies | Bank Guaranty | 17,000,000.00 |
| Mega Asia Bottling Corp. | Alfredo M. Yao Group of Companies | Bank Guaranty | 1,500,000.00 |
| Zest-O Corporation | Alfredo M. Yao Group of Companies | Bank Guaranty | 5,000,000.00 |

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders? The dealings of the Bank with RPTs are always conducted at arms-length and are covered as well by its DOSRI policies and procedures, i.e., subject to prior approval by the BOD and director concerned does not participate in the deliberation of the transaction, and if the transaction is lending, the amount is subject to ceiling of limit.

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

# OUR CORPORATE GOVERNANCE

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

| | |
|---|---|
| Quorum Required | Majority of outstanding capital stock |

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

| | |
|---|---|
| System Used | Open voting |
| Description | By motion and approval |

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

| Stockholders' Rights under The Corporation Code | Stockholders' Rights not in The Corporation Code |
|---|---|
| With pre-emptive rights | No pre-emptive rights |

Dividends

| Declaration Date | Record Date | Payment Date |
|---|---|---|
| N/A | N/A | N/A |

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

| Measures Adopted | Communication Procedure |
|---|---|
| Notice for regular or special meetings of the stockholders are sent by the Secretary either by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder or record at the last known post office address, or via facsimile transmission or electronic mail or by publication in the newspaper of general circulation. The notice shall state the place, the date and hour of the meeting, and the purpose to which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. Notice of the meeting is also posted on the company's website as disclosure to PSE inside the "About Us" page.<br><br>Any stockholders who wish to meet up with the Chairman of the Board or any of the directors of the Bank may set an appointment with the Office of the Corporate Secretary at telephone numbers posted on the Bank's website. | Any stockholders who wish to meet up with the Chairman of the Board or any of the directors of the Bank may set an appointment with the Office of the Corporate Secretary at telephone numbers posted on the Bank's website. |

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
    a. Amendments to the company's constitution – amendments are subject to stockholders' approval
    b. Authorization of additional shares – subject to stockholder's approval
    c. Transfer of all or substantially all assets, which in effect results in the sale of the company – subject to stockholders' approval

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up? Yes.

    a. Date of sending out notices: May 09, 2014

    b. Date of the Annual/Special Stockholders' Meeting: May 30, 2014

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

# OUR CORPORATE GOVERNANCE

| Resolution | Approving | Dissenting | Abstaining |
|---|---|---|---|
| Approval of the Minutes of the 2013 Annual Stockholders' Meeting | 77.57% | N/A | N/A |
| Approval on the Operations and Actions done by the Management for the year 2013 | 77.57% | N/A | N/A |
| Ratification of the Audited Financial Statements for the year ending December 31, 2013 | 77.57% | N/A | N/A |
| Ratification of the Acts and Resolutions of the Board of Directors and Management for 2013 | 77.57% | N/A | N/A |
| Election of the Members of the Board of Directors including two (2) Independent Directors to serve for 2014-2015 | 77.57% | N/A | N/A |
| Approval of the Dividend Policy | 77.57% | N/A | N/A |
| Re-appointment of Punongbayan & Araullo (P&A) as the Bank's external auditor for the year 2014-2015 | 77.57% | N/A | N/A |
| Election of Directors for 2014-2015 | 77.57% | N/A | N/A |

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:
   May 30, 2014

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

| Modifications | Reason for Modification |
|---|---|
| N/A | N/A |

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

| Type of Meeting | Names of Board members / Officers present | Date of Meeting | Voting Procedure (by poll, show of hands, etc.) | % of SH Attending in Person | % of SH in Proxy | Total % of SH attendance |
|---|---|---|---|---|---|---|
| Annual | Francis T. Lee<br>Peter N. Yap<br>Rolando R. Avante<br>Honorio O. Reyes-Lao<br>Jeffrey S. Yao<br>Roberto A. Atendido<br>Leticia M. Yao<br>Amador T. Vallejos, Jr.<br>Paterno H. Dizon<br>Benjamin R. Sta.Catalina, Jr.<br>Laurence R. Rapanut<br>Amelita H. Carrillo<br>Ma. Consorcia G. Lagunzad<br>Felipe V. Friginal<br>Keith S. Chan | 5.30.14 | Open Voting | 77.57% | | 77.57% |
| Special | N/A | N/A | N/A | N/A | N/A | N/A |

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs? No

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares. Yes

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

| | Company's Policies |
|---|---|
| Execution and acceptance of proxies | Should be signed and validated by the transfer agent |
| Notary | Should be duly notarized |
| Submission of Proxy | Should be submitted before the cut-off date. |
| Several Proxies | N/A |
| Validity of Proxy | For that specific ASM only. |

| | Company's Policies |
|---|---|
| Proxies executed abroad | N/A |
| Invalidated Proxy | N/A |
| Validation of Proxy | Should be done/validated by STSI. |
| Violation of Proxy | N/A |

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

| Policies | Procedure |
|---|---|
| 15 Trading days before the date of ASM | 15 Trading days before the date of ASM |

(i) Definitive Information Statements and Management Report

| | |
|---|---|
| Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials | Depends on the masterlist given by STSI. |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners | 15 Trading days before the date of ASM |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders | 15 Trading days before the date of ASM |
| State whether CD format or hard copies were distributed | Hard Copies |
| If yes, indicate whether requesting stockholders were provided hard copies | N/A |

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

| | |
|---|---|
| Each resolution to be taken up deals with only one item. | Yes |
| Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election. | Yes |
| The auditors to be appointed or re-appointed. | Yes |
| An explanation of the dividend policy, if any dividend is to be declared. | Yes |
| The amount payable for final dividends. | N/A |
| Documents required for proxy vote. | Yes |

Should any of the foregoing information be not disclosed, please indicate the reason thereto. N/A

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

| Policies | Implementation |
|---|---|
| No discrimination whether majority or minority stockholders. | No discrimination whether majority or minority stockholders. |

(b) Do minority stockholders have a right to nominate candidates for board of directors? Yes.

## K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The company's external communications is being handled by the Corporate Information Officer in the person of the Bank's Corporate Secretary, he is primarily responsible for the disclosure of material information as required by the PSE and the SEC. This communication materials are being reviewed by the the Investor Relations Officer and the Office of the President and sign off before forwarding for disclosure to the CIO.

For the company's internal communication, the HRG for personnel matters handles all the announcements after review and sign off by the Office of the President.

As PBB has just been listed last year, a policy and manual of procedures is prepared specific to the uniform policy on the bank's external and internl communications.

2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

| | Details |
|---|---|
| (1) Objectives | To communicate on a timely manner important company undertakings,activities which materially impacts the price of the bank shares primarily for the public investors. |
| (2) Principles | |
| (3) Modes of Communications | 1. Disclosure via EDGE System of PSE<br>2. Disclosure via media using newspaper and public announcements thru its branches<br>3. Posting of vital announcement to the branch and head office perimeter areas<br>4. If needed, radio and tv announcements<br>5. Announcements by individual mail , when needed |
| (4) Investors Relations Officer | • Current – President Rolando R. Avante-363-33-33/FAX 363-21-29<br>• OIC – Alice P. Rodil and Atty. Roberto Santos 363-33-33/3632129 |

3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Currently, all the above items, when being decided rests initially to the Executive Committee for approval and elevated to the Board of Directors for approval. All the major decisions regarding shares/capital and the like are elevated to the Board of Directors for approval.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

The bank's Independent Directors are Paterno H. Dizon and Benjamin Sta Catalina. Jr., who are primarily responsible for fair decisions and transparency of all the decisions made and approved by the Bank's Board.

## L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

| Initiative | Beneficiary |
|---|---|
| Officers and staff of Philippine Business Bank recently raised through concerted efforts a total of Php100,000 for donation to Philippine Red Cross (PRC). The said donation was coursed thru AMY Foundation, the CSR arm of the Bank. On August 15, 2014, PBB officers and staff who are also active volunteers of AMY Foundation together with Ms. Alice P. Rodil, SVP and Controller of PBB and at the same time Executive Director of the Foundation, went to PRC-Caloocan to personally deliver their donation which was received by Mr. Russel C. Ramirez, Chairman of the Board of Directors of PRC – Caloocan Chapter. | Philippine Red Cross (PRC) Caloocan |
| In a program held at Philippine Normal University's Geronima Pecson Hall last February 21, 2014 dubbed as "Flashback Friday" - a day of endless gratitude, scholarship donors and student benefactors of PNU were given a tribute and recognition by the scholars, in coordination with the Office of Student Affairs and Student Services.<br><br>AMY Foundation has been in partnership with PNU since 2007 in providing scholarships to the economically deprived but academically deserving students of the said school. Currently, AMY Foundation has ten (10) slots under its roster of scholars for PNU.<br><br>The certification of appreciation was received by the Coordinator for Volunteers, Ms. Luningning T. Ramos, on behalf of the Foundation. | Philippine Normal University |

| | |
|---|---|
| As an overview, Philippine Business Bank (PBB) made a donation thru its CSR arm AMY Foundation to KAISA para sa Kaunlaran for its Bangkabuhayan Project on December 17, 2013. Said donation would cover the cost of ten (10) bancas that would be given to the pre-identified victims in the fishing communities which were severely affected by the Typhoon Yolanda.<br><br>This project became a reality on July 31, 2014 when the donated bancas were finally turned over to the recipients from Camotes Island. Present during the ceremonial turnover were the four (4) Mayors of the following Municipalities of Camotes Island namely: Hon. Erwin Yu of Tudela, Hon. Jesus Fernandez Jr. of Pilar, Hon. Aly Arquillano of San Francisco and Hon. Luciano Rama Jr. of Poro, together with KAISA Incumbent Board of Director and past President Mr. Ganny Tan and KAISA Program Coordinator Ms. Eleanor Gonzales, with Mr. Rick Jordan Benarao, Branch Operations Officer of a PBB branch in Cebu, attended on behalf of the Bank and AMY Foundation.<br>After the MOA signing, the respective mayors of each municipality made a commitment message which was eventually followed by the blessing of the bancas. The fishermen-beneficiaries excitedly jumped in to their new bancas and tested them in the nearby sea. They said that the bancas were just light and good that it can just ride with the sea waves. Mr. Rick Jordan capped the ceremony by giving a speech and a sumptuous lunch was prepared for everybody to partake.<br>AMY Foundation is one of the active members of KAISA. | Victims of Typhoon Yolanda |
| Bad weather could not stop the good hearts of AMY Foundation's officers, staff and volunteers from making the street children enjoy the Christmas Party prepared for them. In fact, more than a hundred kids from Barangays 103, 121, 122 and 124 joyfully participated in the said event.<br><br>Ms. Linalyn Gabrido, one of the active volunteers of AMY Foundation and also the Barangay Chairman of Barangay 121 led the affair. Although the initial plan to have parlor games for the kids did not push through due to the inclement weather, still, the kids happily clapped and cheered to the amusement of the volunteers.<br><br>The entire community enjoyed the party especially the kids who received loot bags containing candies, toys and school kit for them to bring home.<br><br>The party would not be complete without the merienda which was shared by everybody. | Street children |

## M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, the CEO/President, Treasurer, Corporate Secretary and the Internal Auditor.

| | Process | Criteria |
|---|---|---|
| Board of Directors | To evaluate the performance of the Board of Directors as a body as well as those of its committees, the individual directors and the chief executive, the Self-Evaluation Form shall be used. The self-evaluation shall be conducted every year, the result of which shall be submitted to the Compliance Office for consolidation thirty (30) days prior to the date of yearly Stockholders' Meeting. | Rating<br>Description<br><br>Five (5) - highest<br>Leading practice or principle is adopted in the Manual and full compliance with the same has been made<br><br>Four (4)<br>Leading practice or principle is adopted in the Manual and compliance has been made but with minor deviation(s) or incompleteness.<br><br>Two (2) to Three (3)<br>Leading practice or principle is adopted in the Manual and compliance has been made but with major deviation(s) or incompleteness.<br><br>One (1) - lowest<br>Leading practice or principle is adopted in the Manual but compliance has not yet been made. |
| Board Committees | | |
| Individual Directors | | |
| CEO/President | | |

## N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

| Violations | Sanctions |
|---|---|
| Non-observance of the provisions of the Revised Corporate Governance Manual | a) In case of first violation, the subject person shall be reprimanded.<br>b) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.<br>c) For third violation, the maximum penalty of removal from office shall be imposed. |

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Caloocan on 15 APR 2015 , 2015.

SIGNATURES

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
Chief Executive Officer

PATERNO H. DIZON
Independent Director

BENJAMIN R. STA. CATALINA, JR.
Independent Director

AGUSTIN E. DINGLE, JR.
Chief Compliance Officer

SUBSCRIBED AND SWORN to before me this 15 day of April 2015, affiant(s) exhibiting to me their TIN Nos. as follows:

| Name | TIN |
|---|---|
| Francis T. Lee | 113-336-814 |
| Rolando R. Avante | 106-968-623 |
| Paterno H. Dizon | 118-192-581 |
| Benjamin R. Sta. Catalina, Jr. | 106-906-404 |
| Agustin E. Dingle, Jr. | 135-949-807 |

NOTARY PUBLIC

ATTY. NICHOLAS CHRISTOPHER R. FURA
Notary Public
Until December 2015
Roll of Attorney's No. 53988
IBP OR No. 0991041/01.21.15/Calamana
PTR OR No. 6887016/01.21.15/Caloocan
MCLE Compliance No. IV-0021928/09.11.13

Doc. No. 347
Page No. 71
Book No. 48
Series of 2015

(Footnotes)

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

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

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

**Main Office Branch**
350 Rizal Avenue Extension cor. 8th Ave.,
Grace Park, Caloocan City, Philippines
Phone: (632) 363-3333
Fax: (632) 364-9171
Website: www.pbb.com.ph

PHILIPPINE BUSINESSBANK
a savings bank
Making Things Happen...Today!