SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2014**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

5. **CALOOCAN**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Gracepark, Caloocan City** **1400**
   Address of principal office Postal Code

8. **(02) 363-33-33**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON	**429,166,750**

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

    Yes [x] No [ ]

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

    PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ]   No [x]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]   No [ ] NOT APPLICABLE [x]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as "Total Savings Bank" and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to "Philippine Business Bank (A Savings Bank)", which the shareholders believe better reflects the Bank's business thrust and focus.

The Bank's focus is to become the bank of choice of Small and Medium Enterprises ("SMEs"). The BSP defines small and medium enterprises to be any business concern with assets between Php3 million to Php100 million, excluding the land value on which the entity's office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. Based on statistics of the country's Department of Trade and Industry, in 2012, SMEs contributed approximately 53 per cent of the employment and 30.8 per cent in terms of value-added in the Philippines. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provides trade, manufacturing and outsourcing and services and helps contribute to community and local development. Lastly, the Bank believes that the SME segment can be considered underserved with most financial institutions focusing on the banking requirements of large corporations and/or the consumer sector.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centers of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 116 branches as of December 31, 2014 with most branches located in areas with a high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City as well as in highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. PBB believes that client proximity, understanding of its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are among the key factors which have driven and will continue to drive its growth.

Principal Business Activities

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

Reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank will purchase 100 per cent of the stock, assets, and goodwill of KRBI subject to the approval of a merger plan by the BSP and SEC. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2012, the BSP and the SEC respectively approved the merger.

Products and Services Offered

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

Distribution methods of the products or services

The Bank utilizes branches for the distribution of its deposit products. As for its loan products, the Bank has an Account Management Group located in its Head Office and a Branch Lending Unit which handles loans generated by the braches. The Bank's Trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Group

Competition

The Philippine banking industry is highly competitive. There are a multitude of players in the industry and the key is to develop a competitive advantage. The following factors underscore the Bank's strengths in its niche market:

1. Strong presence, reputation, and attention to its SME customers

The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

PBB's focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations and even its corporate culture.

Majority of PBB's branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

The Bank believes the success of this branch strategy is shown in its increased business performance. PBB's branches have increased over the past three (3) years from 65 in 2012 to 116 as of December 31, 2014 coinciding with the growth in the PBB's deposit base from Php26.449 billion in 2012, Php37.882 in 2013 and Php46.619 in December 31, 2014 and its portfolio of loans and receivables from Php20.869 billion in 2012, Php31.600 billion in 2013 and Php40.110 as of December 31, 2014.

Of equal importance to PBB's current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch's catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

In line with its view that the SME clients are relatively unsophisticated with respect to bank transactions and require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. PBB believes that customer interaction and service will remain key ingredients for its success.

2. Effective capital utilization

Aside from interest income from its loan products, PBB is focused on earnings generation from its treasury operations. PBB's treasury operations, aside from ensuring liquidity and managing liquidity risk, is and will remain actively involved in the trading of domestic treasury debt, corporate bonds, foreign currency denominated bonds and other financial instruments and is expected to generate income especially during periods of weak loan demand or excess liquidity arising from branch deposit taking efforts.

To this end, in 2009, PBB recruited officers and personnel with extensive treasury and trading experience and built up its securities portfolio. In 2012, PBB's AFS and trading portfolio amounted to Php5.785 billion and in 2013 the AFS and trading portfolio amounted to Php8.834 billion. As of December 31, 2014, the AFS holdings and other trading portfolio (FVPL) of the Bank reached Php7.850 billion.

3. Solid lending policies and practices

Despite the growth of PBB's loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB's relationship and community based approach to lending, which takes advantage of branch and account officers' position in their respective communities to establish prospective borrowers' reputation, business performance and risks, and other credit evaluation factors.

The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

Over the past four (4) years, PBB's average NPL ratio was at 2.99%t in 2011, 3.09% in 2012 and 2.37% in 2013, and 1.57% in 2014.

4. Sound balance sheet well positioned for growth

PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2012, 2013 and 2014 was at 74.42%, 83.42% and 84.67%, respectively.

5. Strong capital base

PBB's Total CAR and Tier 1 CAR was at 18.86%, 18.17% and 24.46%, 23.81% and 20.95%, 19.96% for the years ending December 2012, 2013 and 2014, respectively.

With its capital structure, the Bank is well positioned to undertake future fund raising efforts to finance further expansion plans and comply with the capital adequacy requirement set by the BSP.

6. Highly competent and well experienced management team

PBB is managed and ran by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. On average, each of the Bank's senior officers possess about 27 years of experience in banking and finance. Similarly, each of PBB's branch officers has, on average, a total of 15 years of experience in branch banking.

With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank's target clients and their banking needs.

Sources and availability of raw materials and the names of principal suppliers

This is not relevant to the operations of the Bank.

Customer Concentration

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer that its loss would have material adverse effect on the Bank.

Transactions with and/or dependence on related parties

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and ATM Business Card Design. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

Government approval of principal products or services

The Bank has no outstanding application subject to government approval.

Effect of existing or probable governmental regulations on the business

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Amount spent on research and development activities

The Bank has a department in-charge of new products which reports to the Branch Banking Group under the CEO. This department has two personnel – one officer and one staff. Its expense is only limited to regular salary of the employees and is very minimal.

Costs and effects of compliance with environmental laws

Not applicable

Employees

As of December 31, 2014, the Bank has a total of 1,063 employees broken down into the following categories:

Executives	60

Managers – Operations and Support	216
Managers – Branch / Marketing	149
Staff	638
Total	**1,063**

For the ensuing twelve (12) months, the Bank anticipates to have additional 104 employees broken down as follows:

Executives	5
Managers – Operations and Support	20
Managers – Branch / Marketing	28
Staff	51
Total	**104**

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

Financial 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, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of 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 Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the Risk Committee (Riskcom which is a Board Committee), performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

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.

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.

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 Earnings-at-Risk (EAR) Limit which is reviewed regularly. The earnings-at-risk is the maximum estimated loss on interest income as a result of mismatches in the repricing structure of the Bank's assets and liabilities and on the volatility of interest rates.

For interest rate risk in the trading portfolio, the Bank utilizes the value-at-risk (VaR) methodology and employs BOD-approved VaR and loss limits to mitigate risks. 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.

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. 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 RiskCom prior to the confirmation by the BOD.

Item 2. Properties

The Bank owns the land and building on which its head office is located. The head office is located on a 1,300 square meter property along Rizal Avenue, Grace Park, Caloocan City. The Bank also owns the land and premises on which four (4) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, in Imus, Cavite, in Luwasan, Muzon, in San Jose del Monte City, Bulacan, and in General Tinio, Nueva Ecija. The land and premises on which PBB's branches other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

PBB Branch	Lessor	Lease Expiry		Basic Rental	Escalation Clause
		Commencement date	Expiry date		
Binondo Corporate Center	Philippine-Chinese Charitable Association, Inc.	October 1,2012	September 30,2018	93,170.00	10% every 2^{nd} yr thereafter
Elcano	Bonifacia Capalad	September 1,2014	September 1,2017	80,000.00	5% annually
Carmen Planas	Zaldra Realty Development Corporation	January 1,2005	December 31,2014	70,000.00	5% on 3rd year & every yr thereafter
Pasay	Mayson Realty Corporation	March 14,2013	March 14,2018	45,796.00	5% on 2^{nd} yr & every year thereafter
Padre Algue	Keppeland Realty Corporation	November 17,2009	November 16,2014	68,400.00	5% on 3^{rd} year & every year thereafter
Quintin Paredes	Downtown Realty Investment Corporation	July 24,2010	July 24,2015	136,500.00	10% annually
Adriatico-Malate	Evangeline T. Lim	February 3,2012	February 3,2017	117,000.00	5% on 3^{rd} year & every year thereafter
Pedro Gil-Paco	Wesco General Merchandise	July 27,2012	July 27,2017	85,600.00	5% on 3^{rd} year & every year thereafter
Valenzuela	PSL Prime Realty Corporation	August 1,2008	August 1,2013	70,000.00	7.5% on the 3^{rd} yr & every yr thereafter
Kaybiga	Guilmar Marble Corporation	October 21,2010	October 20,2015	33,950.00	7% on 2^{nd} year & every yr thereafter
Navotas	Megarite Development Corporation	January 1,2015	December 31,2019	35,721.00	5% on 4^{th} year & every year thereafter
Malabon	J2NS Property Development, Inc.	August 1,2008	August 1,2013	49,912.50	10% on 2^{nd} year & every year thereafter
Mabini C-3	Marea Ventures Corp.	June 1,2014	May 31,2019	66,550.00	5% annually
Samson Road	Oscar F. Tirona	October 1,2014	September 30,2019	49,428.50	6% annually
Camarin	Luwell Realty & Development Corporation	June 1,2010	May 31,2015	48,150.00	5% on 3^{rd} year & every year thereafter
Karuhatan -Malinta	Hermogenes P. Santiago	February 8,2011	February 8,2016	45,000.00	5% on 3^{rd} year & every year thereafter
Malabon-Rizal Ave.	Flaviano G. Felizardo III	August 18,2011	August 18,2026	40,000.00	none
Meycauayan	I.S. Properties, Inc.	January 1,2011	January 1,2016	60,000.00	5% on 4^{th} and every yr thereafter
Sta. Maria	Angelika Halili Cruz	October 1,2012	September 30,2017	38,828.13	5% on 3^{rd} yr. & every yr thereafter
Baliuag	Danilo S. Santos	January 1,2007	December 31,2017	45,000.00	7% on 6^{th} yr. & every yr thereafter
Malolos	DJ Paradise Resort, Inc.	January 1,2015	December 31,2019	35,000.00	5% annually
Banawe	Solmac Marketing Inc.	May 1,2014	April 30,2020	115,744.80	7.5% on 3rd yr. onwards
Edsa-Caloocan	Solmac Marketing Inc.	April 1,2007	March 31,2017	42,100.00	7% on 3rd, 5th, 7th, & 9^{th}
Del Monte	Cheung's Development Corporation	January 1,2015	December 31,2019	56,175.00	5% on 2nd year & every yr thereafter
Cubao	RSAG Building Management Services	August 15,2010	August 15,2015	45,000.00	5% on 3^{rd} year
Novaliches	Luwell Realty & Development Corporation	October 1,2014	September 30,2019	79,007.91	5% annually
Commonwealth	Frederick C. Ibay	December 1,2011	December 1,2016	60,000.00	5% on 3^{rd} yr. & every yr thereafter
Congressional Avenue-Q.C.	Holistic Management Inc.	March 31,2012	December 31,2017	70,000.00	5% on 3^{rd} yr. & every yr thereafter
West Avenue	Fiorino Development Corporation	June 23,2012	June 23,2017	52,831.25	5% on 3^{rd} yr. & every yr thereafter
Roosevelt	Henry Tan Villasi	November 15,2012	November 14,2017	28,421.10	5% on 3^{rd} yr. & every yr thereafter
Marikina	Heirs of Amelia M. Diguanco	October 1,2011	September 30,2016	65,000.00	5% on 3^{rd} year & every yr thereafter
Cainta	Rosmil Realty Development Corporation	March 1,2007	March 1,2017	31,200.00	5% on 2nd year & every yr thereafter
Antipolo	Megathon Properties, Inc.	August 14,2013	August 14,2018	63,606.60	negotiate before renewal
Antipolo-Masinag	Rikland Property Leasing	December 20,2011	December 20,2016	48,960.00	5% on 3^{rd} year & every yr thereafter
Makati	AMY Leasing Company	January 1,2009	January 1,2024	100,000.00	5% on 2^{nd} yr & every year thereafter
The Fort	Megaworld Corporation/Bonifacio West Dev't Corp.	July 1,2008	June 30,2013	115,800.00	5% annual starting 7/1/2009
Greenhills	LGI Group Corporation	June 1,2012	May 31,2017	96,900.00	None-straight 5 years
Mandaluyong	Antonio H. Yap	December 31,2011	December 31,2016	85,743.55	5% on 3^{rd} year & every yr thereafter
Ortigas	Westpoint Industrial Sales Company, Inc.	June 15,2010	June 14,2015	57,500.00	5% on 2^{nd} yr & every year thereafter
Pasig Blvd.-Kapitolyo	Dhondup Holdings Inc.	April 15,2012	April 15,2017	50,827.00	5% on 3^{rd} year & every yr thereafter
Las Piñas	Omni Investment Bldg	February 27,2008	February 26,2013	40,348.00	5% on 4^{th} year & every year thereafter
Sucat-Parañaque	Jaka Investments Corporation	February 15,2012	February 14,2017	76,831.50	5% on 3^{rd} year & every yr thereafter
Madrigal Business Park	Solid Gold Realty Corporation	August 26,2011	August 25,2016	57,750.00	5% on 3^{rd} year & every yr thereafter
Salcedo Village-Makati City	Lacelli International Corporation	August 1,2012	July 31,2017	119,700.00	5% on 3^{rd} year & every yr thereafter
Dagupan	Wilson Dy	April 15,2002	April 14,2022	50,000.00	1^{st} 3yrs at 50k 5% succeeding
Urdaneta	Gold and Chimes Realty Corporation	February 1,2012	February 1,2022	64,000.00	5% every 2 years
La Union	Rome Development & Management Corp.	August 15,2014	August 15,2019	60,775.31	5% on 2^{nd} yr & every year thereafter
Baguio	Atty. Ernesto Ll. De los Santos	August 26,2014	August 26,2019	78,553.13	5% on 2^{nd} year & every 2 yrs thereafter
Tarlac	Sps. Co Ting Chu & Leticia Tan Co	July 1,2014	June 30,2019	66,852.85	5% annually
Laoag City	Laoag Allied Realty and Development	October 1,2011	September 30,2016	70,000.00	5% on 3^{rd} year & every yr thereafter
Cabanatuan	Angel S. Pascual	January 16, 2014	January 15, 2019	58,750.00	5% on 3^{rd} year & every yr thereafter
Gapan	Veronica, Albino, Digna, Gregorio, Elizabeth(all surnamed Del Fonso)	November 1,2008	November 1,2023	27,300.00	beg.2^{nd} yr 5%up 5^{th} 6.5%-6th-10th 8%-11th-15^{th}
San Fernando	JTG Sears Realty Corporation	April 1,2012	April 31,2017	24,000.00	none
Angeles	AJV Investment Holdings, Inc.	June 30,2008	June 30,2013	67,500.00	negotiate before renewal
Olongapo City	Maria Melinda Tan Chua	May 2011	May 2016	70,000.00	5% on 3^{rd} yr. & every yr thereafter
Muntinlupa	Sps. Sturnino L. Baccay & Katherine C. Baccay	October 1,2012	October 1,2017	54,824.00	5% on 3^{rd} year & every yr thereafter
Calamba	Josie T. Lu	January 1,2011	December 31,2015	60,000.00	5% on 2^{nd} year & every year thereafter
Batangas	Sps. Jose Q. and Helen S. Cifra	August 1, 2012	August 1,2017	60,000.00	10% on 3^{nd} year & every year thereafter
Sta. Rosa	Philippine Seven Corporation(Sub Lessor)	March 1,2010	February 28,2013	60,000.00	7.5% on the 2^{nd} yr & every yr thereafter
Naga	Peterson Resources and Holding Inc.	March 1,2015	February 28,2020	42,000.00	5% on 3^{rd} year & every yr thereafter

Lipa City	Reynato D. Goce	August 15,2012	August 15,2017	66,110.00	5% on 3rd year & every yr thereafter
Legazpi City	Natividad M. Sison	August 15,2012	August 15,2017	50,000.00	5% on 3rd year & every yr thereafter
Puerto Princesa Palawan	Sps. Allan and Dawn Carlos	July 1,2012	July 1,2018	71,000.00	5% on 3rd yr and every yr thereafter
Lucena City	Amalia Garana-Italia	November 2,2012	November 2,2017	45,000.00	5% on 3rd yr and every yr thereafter
Cebu, Downtown	Lianting Development Corporation	May 15,2014	May 14,2019	62,114.84	7.5% on the 3rd yr & every yr thereafter
Mandaue	Lester & Lesley To Chip	April 1,2014	March 31,2019	50,000.00	5% annually
Davao-Sales	JM Agro Industrial Trading Corporation	June 2009	June 2019	60,000.00	5% every 2 years
Cagayan de Oro	Leo Boyd Casiño and Breinard M. Casiño	June 1,2014	May 31,2019	36,800.00	5% annually
Bacolod	The Philippine American Life and General Ins. Co.	November 1,2014	October 31,2017	63,956.71	5% annually
Iloilo	Manuel V. Uy	January 16,2010	January 15,2015	28,000.00	5% on 3rd year
General Santos	Firenzo Property Dev't/GSC Suncity Suites	September 16,2010	September 16,2015	60,000.00	5% on 3nd year & every 2 yrs thereafter
Bajada, Davao	Davao City Chamber of Commerce & Industry Inc.	December 1,2010	November 30,2015	37,500.00	5% on 3rd year
Lapu-Lapu City, Cebu	Antonio Amistad	February 15,2011	February 15,2016	56,250.00	5% on 3rd yr and every yr thereafter
Tagbilaran	EB Gallares Properties Associates, Inc.	September 16,2012	October 31,2017	70,045.50	5% on 3rd yr and every yr thereafter
Legaspi Village-Makati	Andrea L.Dulalia	January 15,2013	January 14,2018	72,573.00	2nd year and every year thereafter
Cauayan	Jolilyn A. Guy	April 1,2013	March 31,2018	63,840.00	5% on 3rd yr. & every yr thereafter
Banawe-Kaliraya	Mary Ty Tan	June 15,2013	June 14,2018	80,000.00	5% on 2nd yr & every year thereafter
Retiro	Doña Ignacia Development Corporation	May 22,2013	May 21,2018	50,000.00	7% on the 3rd year & every yr thereafter
Paterno-Quiapo	Edilberto Pontillas	July 1,2013	June 30,2018	90,000.00	5% annually
Tadoban	Tadoban Buddhist Temple, Inc.	May 31,2013	May 30,2018	60,000.00	5% on 3rd yr and every yr thereafter
Grace Park	SMI Development Corporation	August 17,2013	August 17,2018	102,235.00	5% on 3rd yr. & every yr thereafter
Kalibo	Lawrence Ti Lu	September 6,2013	September 5,2018	60,000.00	5% on 3rd yr and every yr thereafter
Concepcion-Marikina	Mark William Pua Uy	August 15,2013	August 14,2018	60,000.00	5% every 2 years
Dasmariñas-Cavite	Jica Land Developers Inc.	October 1,2013	September 30,2018	48,400.00	5% on 3rd yr and every yr thereafter
Tanauan	Erwin L. Biscocho	August 16,2013	August 16,2018	72,000.00	5% on 3rd yr and every yr thereafter
Tuguegarao	Lorita C. Corral	September 16,2013	September 15,2018	62,255.00	5% on 3rd yr. & every yr thereafter
Zamboanga	Wee Agro Industrial, Inc.	September 6,2013	September 5,2018	60,000.00	5% on 3rd yr and every yr thereafter
Sorsogon	Sorsogon Chang Kai Shek School	October 1,2013	September 30,2018	60,500.00	5% on 3rd yr and every yr thereafter
San Pablo	Albrighton Corporation	October 16,2013	October 15,2018	65,400.00	5% on 3rd yr and every yr thereafter
Bocaue	Joel G. Castillo and Cynthia G. Castillo	January 1,2014	December 31,2018	40,000.00	5% on 3rd yr. & every yr thereafter
Timog-Rotonda	A.A. Tanco, Inc.	December 1,2013	November 30,2018	80,000.00	5% on 3rd yr. & every yr thereafter
Pasay-Malibay	M. Ainsley Realty Corporation	January 1,2014	December 31,2018	65,000.00	5% on 3rd year & every year thereafter
Edsa-Monumento	New MBS Marketing Corporation	January 1,2014	December 31,2018	58,000.00	5% on 3rd yr. & every yr thereafter
CDO-Cogon	Alice LL. Andrada, Inc.	January 1,2014	December 31,2018	55,000.00	5% on 3rd yr and every yr thereafter
Butuan	FG Ever, Inc.	December 26, 2013	December 25, 2018	60,000.00	5% on 3rd yr and every yr thereafter
Iligan	Sps. Glen and Marissa Doromal	April 1,2014	March 31, 2019	35,000.00	5% on 3rd yr and every yr thereafter
San Pedro-Laguna	Lily Tsang Ngo	April 1,2014	March 31, 2019	60,000.00	5% on 3rd yr and every yr thereafter
Davao-Lanang	Binansel, Inc.	June 1,2014	May 31,2019	50,000.00	10% on the 3rd year
Molino-Bacoor	SolaGrande Realty Corporation	July 1,2014	June 30,2019	56,354.60	5% on 3rd yr and every yr thereafter
Calapan	Mila S. Tolentino, Amado S. Tolentino, Jr. and Lita S. Tolentino	May 23,2014	May 22, 2019	40,000.00	5% on 3rd yr and every yr thereafter
Vigan	Juvencio L. Pe Benito	July 1,2014	June 30,2019	55,000.00	10% on 3rd yr and every yr thereafter
Santiago	Sps. Manuel Salvador N. De Vera & Bonaleth M. De Vera	July 1,2014	June 30,2019	65,000.00	5% on 3rd yr and every yr thereafter
Davao-Toril	Far East Noble Huse, Inc.	July 21,2014	July 31,2019	37,000.00	5% on 3rd yr and every yr thereafter
Taytay	Estelita M. Felix	November 1, 2014	October 31, 2019	66,510.00	5% on 3rd yr and every yr thereafter
Balanga	Melencio A. Unciano, Jr.	November 1, 2014	October 31, 2019	60,000.00	5% on 2nd yr & every year thereafter
Consolacion-Cebu	1028 Reality Corporation	December 1,2014	November 30,2019	58,415.00	5% on 3rd yr and every yr thereafter
Ozamis	The Insular Life Assurance Company, LTD	July 16, 2014	July 15, 2019	39,200.00	5% on 3rd yr and every yr thereafter
Tagum City-Davao	Albert L. Ng	December 16, 2014	December 15, 2019	60,000.00	srtaight
Dumaguete	Maximo P. Tan	December 16, 2014	December 15, 2019	60,000.00	5% annually
General Santos-Santiago Blvd.	Asaje Realty Corporation	December 16, 2014	December 15, 2019	53,500.00	5% on 3rd yr and 10% on 4th and 5th yr
Dipolog	Johnny A Lim	October 1,2014	September 30,2019	80,000.00	srtaight
Tarlac-Paniqui	Green Field Mirade Realty Development Corp.	January 16,2015	January 15,2020	38,962.00	5% on 3rd yr and every yr thereafter
Benguet-La Trinidad	Sps. Fernando S. Tiong & Rosemarie G. Tiong	February 16, 2015	February 15, 2020	60,000.00	Additional P5,000 on the next 2 ½ yrs
Cebu-Talisay	Dynasty Management and Development Corp.	February 3, 2015	January 31, 2020	45,000.00	7% on 3rd year & every yr thereafter
Davao-Panabo	Asaje Realty Corporation	January 16, 2015	January 15, 2020	62,909.00	5% on 3rd yr and every yr thereafter
Bonifacio Global City	MC Home Depot (Fort Bonifacio), Inc.	February 1, 2015	January 31, 2020	91,152.00	5% annually

Based on prevailing costs, the Bank estimates that the development of a new branch will cost approximately between Php5 million to Php10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank, in line with its branch network expansion program, intends to lease additional fifteen (15) branches within the next twelve (12) months in the following cities:

- Caloocan City
- SBMA-Subic

- Trece Martires, Cavite
- Tarlac City
- Iriga-Camarines Sur
- Biñan-Laguna
- Cebu-Escario
- Cebu-Banilad
- Malay, Aklan
- Iloilo
- Roxas City, Capiz
- Cebu-Talisay
- City of Kidapawan, North Cotabato
- City of Valencia, Bukidnon
- Surigao City, Surigao Del Norte

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

1. The following administrative and criminal cases mentioned below are cases filed (and still pending against the Bank) by a certain Nimfa Simbulan ("Simbulan") and her siblings which the Bank considered as harassment suits as the Bank was caught in the crossfire between the complainant and one of the respondents, Jose C. Lee (a client of the bank, "Lee"). The complainant, Nimfa Simbulan, is demanding payment for alleged damages she sustained by virtue of an alleged mortgage loan with the Bank which, based on the Bank's records, does not exist.

The following cases arose from a controversy between Lee, who was the one who actually obtained a loan from the bank, and Simbulan. The Bank was caught in the crossfire since the release of the loan was made using the facilities of the Bank upon the request of Lee. Simbulan was of the belief that a mortgage loan was obtained from the Bank in her name and that a savings account was opened in her name, both without her knowledge and consent.

The Bank, in all its submissions to the respective judicial and quasi-judicial offices where the following cases are pending, has categorically stated that <u>no</u> such mortgage loan in the name of Simbulan exists in its records. Further, the Bank maintains its position that the opening of the savings account in Simbulan's name was done in accordance with its regular procedure for opening of accounts for each and every client.

a. On January 27, 2012, an administrative case was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Rolando R. Avante, Elizabeth S. Cheung, et al. for alleged Violation of Sec. 55.1 (a) Participating in Fraudulent Transaction) of Republic Act No. 8791 (General Banking Law of 2000) with the Office of Special Investigation (OSI) of the Bangko Sentral ng Pilipinas under OSI Adm. Case No. 2012-001 filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz. In this case, Simbulan alleged that the Bank and the impleaded officers participated in defrauding her when they approved the alleged loan and mortgage agreement and opened the savings account. As previously stated the Bank denied these allegations and insisted that no mortgage loan in the name of Simbulan exists in records of the Bank. The case is now pending with the Supervised Banks

Complaints Evaluation Group, Office of the General Counsel and Legal Services of the Bangko Sentral ng Pilipinas.

b. On February 16, 2012 a criminal complaint was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Elizabeth S. Cheung, Rolando R. Avante and Alfredo M. Yao, et al. at the Prosecutor's Office of Quezon City docketed as IS No. XV-03-INV-12B-01508 for alleged Violation of Republic Act No. 8791. The allegations in this case are similar to the allegations in the immediately preceding item, thus bolstering the Bank's position that this is a harassment suit. This case has already been **dismissed** by the Prosecutor's Office of Quezon City. The Complainant appealed said Resolution though to the Department of Justice.

2. On March 22, 2002, Mr. Tomas Tan of CST Enterprise, Inc. (CST) filed a derivative suit as a minority stockholder against Philippine Business Bank, et al., for the Declaration of Unenforceability of Promissory Notes and Mortgage, Injunction and Damages with Prayer for Temporary Restraining Order or Writ of Preliminary Injunction. The case arose from a loan obtained by CST, as represented by John Dennis Chua and secured by Real Estate Mortgage over TCT nos. 124275 and 157581. CST defaulted in the payment of the loans constraining PBB to commence the necessary foreclosure proceedings on the mortgaged properties. However, the minority stockholder, Tomas Tan, alleged that the loan was fraudulently obtained and sought for its nullification. The case is still pending in RTC 66 – Makati City. In the same case, PBB filed a cross claim against Felipe Chua and successfully obtained a Summary Judgment (and was executed), however, defendant/cross-defendant Felipe Chua appealed the Order of execution pending appeal, wherein the Supreme Court eventually ordered to remand the case back to the RTC 66-Makati City for further trial. True enough, RTC 66 – Makati City already rendered a Decision dismissing the Complaint. However, Plaintiff moved for reconsideration of the said RTC 66's Decision. Even if an adverse decision will be finally judged against the Bank on this civil case, the Bank believes it will not have an adverse material effect on its operations.

In fact**,** the criminal case for Syndicated Estafa filed by Mr. Tomas Tan and his group against some of the Bank's past and incumbent directors/officers with the Office of the City Prosecutor of Caloocan City docketed as I.S. No. XV-02-INV-13B-0874 entitled "Tomas Tan versus Rodulfo Besinga, et.al." has already been **dismissed** though the Complainant filed Motion for Reconsideration thereto.

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

There were no matters submitted to vote a security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

As of the December 31, 2014, the following are the holders of record of the Bank's common shares as set forth in the following table:

Market Information

Period	High	Low
1Q 2014	19.2	18.36
2Q 2014	24.4	18.4
3Q 2014	23.92	16.4
4 2014	21	18.02
1Q 2015	21	18.02
Last Traded Price		18.24

Name	Citizenship	Holdings	Rank
Alfredo M. Yao	Filipino	159,892,207	37.26%
PCD Nominee Corporation-Filipino	Filipino	109,104,265	25.42%
Zest-O Corporation	Filipino	108,035,283	25.17%
Francis T. Lee	Filipino	27,205,000	6.34%
PCD Nominee Corporation-Non Filipino	Foreign	15,789,387	3.68%
Francis T. Lee	Filipino	3,170,000	0.74%
Leticia M. Yao	Filipino	1,080,358	0.25%
Erlinda M. Yao	Filipino	1,080,358	0.25%
Jeffrey S. Yao	Filipino	1,080,358	0.25%
Roberto L. Obiedo	Filipino	337,500	0.08%
James G. Dy	Filipino	312,500	0.07%
Siot Keng Go Dy	Filipino	250,000	0.06%
Roberto Lee Obiedo	Filipino	250,000	0.06%
Peter Y. See	Filipino	250,000	0.06%
Wilbert G. Uy	Filipino	250,000	0.06%
Arvin Uy Ting or Irene Imee Lo Ting	Filipino	218,750	0.05%
Reynato Keh Lim &/or Susana Dy Lim	Filipino	125,000	0.03%
Eusebio S. Go	Filipino	125,000	0.03%
Xiaohan Wu	Chinese	118,626	0.03%
Joaquin Sy Chua	Filipino	93,750	0.02%
Others		398,408	0.09%
Total		429,166,750	100.00%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from Php3.0 billion to Php10.0 billion and for a decrease in par value from Php100 to P10.00.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination of thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

a) Its clearing account with BSP is not overdrawn;

b) BSP's liquidity floor requirement for government funds;

c) BSP's minimum capitalization requirement and risk-based capital ratio;

d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover;

e) Statutory and liquidity reserves requirement;

f) It has no past due loans or accommodation with BSP or any institutions;

g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration; and,

h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that for banks whose shares are listed in the Philippine Stock Exchange, the bank may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

PBB did not declare dividends for its common shares for the years ended 2009 to 2011.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to Php2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of Php100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of Php10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

There were no recent sales of unregistered or exempt Securities, including recent issuance of securities constituting an exempt transaction.

The Bank has no stock options.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

PBB is a savings bank whose principal banking activities are focused on the corporate and SME markets. Among the Bank's principal products are corporate and consumer loans, deposit products, treasury and trust products and trade financing, among others. PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as "Total Savings Bank" and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to "Philippine Business Bank (A Savings Bank)", which the shareholders believe better reflects the Bank's business thrust and focus.

As of December 31, 2014, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio are 20.95% and 19.96%, respectively.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results of operations in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding, as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated industry whereas operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and also monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

Philippine and Global economic environment

The Bank's business, operations, and assets are based in the Philippines and hence, the results of operations, performance, quality, and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy. Monetary policies worldwide formulated in response to the financial crisis resulted in the decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

Financial Performance

For the calendar year ended December 31, 2014 and 2013:

	For the calendar periods ended:			
	12/31/2014	12/31/2013	Variance	%
Interest income	₱ 2,835,896,095	₱ 2,231,764,242	₱ 604,131,853	27.1
Interest expense	(600,616,735)	(499,607,169)	101,009,566	20.2
Net interest income	₱ 2,235,279,360	₱ 1,732,157,073	₱ 503,122,287	29.0

Interest income grew by 27.1% from ₱2.2 billion to ₱2.8 billion this year due to the increase in loan volume booked during the period which increased by 26.9% YoY.

Interest expense also increased by 20.2% as the volume of deposits increased from ₱37.9 billion in 2013 to ₱46.6 billion in 2014, a 23.1% increase.

Consequently, net interest income for the year also improved by 29.0% from ₱1.7 billion the previous year to ₱2.2 billion.

	For the calendar periods ended:			
	12/31/2014	12/31/2013	Variance	%
Core income				
Net interest income	₱ 2,235,279,360	₱ 1,732,157,073	₱ 503,122,287	29.0
Service charges, fees and commissions	127,487,177	73,829,527	53,657,650	72.7
Miscellaneous	144,153,797	38,228,379	105,925,418	277.1
	2,506,920,334	1,844,214,979	662,705,355	35.9
Non-interest expenses	(1,573,216,261)	(1,355,020,586)	218,195,675	16.1
Core income	**₱ 933,704,073**	**₱ 489,194,393**	**₱ 444,509,680**	**90.9**

The Bank's core business continued to perform well on the back of a robust lending business as core income for the year totaled to ₱935.5 million, a 91.2% growth from last year's core income of ₱489.2 million.

Net interest income for the period is at ₱2.2 billion, or an increase of 29.0% as interest income on loans and receivables grew by ₱551.4 million, a 30.4 % growth year-over-year (YoY), while interest expense on deposit liabilities increased by ₱107.6 million, a 21.9% growth YoY. Non-interest expenses increased by ₱216.4 million or 16.0%.

Service charges, fees and commissions increased to ₱127.5 million, or a 72.7% growth YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.

Meanwhile, non-interest expenses grew by 16.1% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

As a result, core income net of operating expenses increased by 90.9%% amounting to ₱933.7 million YoY.

	For the calendar periods ended: 12/31/2014	12/31/2013	Variance	%
Core income	₱ 933,704,073	₱ 489,194,393	₱ 444,509,680	90.9
Trading Gains	34,827,391	816,773,032	(781,945,641)	(95.7)
Pre-tax pre provision income	**968,531,464**	**1,305,967,425**	**(337,435,961)**	**(25.8)**
Loan loss provisions	(189,887,127)	(178,193,789)	11,693,338	6.6
Taxes	(242,439,233)	(123,727,024)	118,712,209	95.9
Net income	**₱ 536,205,104**	**₱ 1,004,046,612**	**₱ (467,841,508)**	**(46.6)**

On the other hand, the Bank's trading gains amounted to ₱34.8 million which is lower than last year's gain of ₱816.8 million, a 95.7% decrease. Thus, pre-tax pre-provision income dropped by 25.7% YoY from ₱1.305 billion last year to ₱970.3 million in 2014. The Bank increased its provisioning by 6.6% from ₱178.2 million to ₱189.9 million

Net income amounted to ₱536.2 million, which is 46.6% lower YoY from ₱1.004 billion in 2013, because of the decrease in the income from trading activities. However, it is worthy to note that as the core income for the period increased, total comprehensive income also increased by 180.6%, from last year's loss of ₱370 million to this year's profit of ₱1.040 billion.

Financial position as of December 31, 2014 versus December 31, 2013:

As of December 31, 2014, the Bank's assets reached ₱57.8 billion, a 22.7% increase as compared to ₱47.2 billion last year.

Loans and receivables increased by 26.9% from ₱31.6 billion to ₱40.1 billion this year as funds were deployed to borrowing clients. NPL ratio improved significantly from 2.37% last year to this year's ratio of 1.57%. CAR is at 20.95%.

Deposit liabilities grew by 23.1% due to an aggressive deposit campaign while total equity increased by 14.2% from ₱ 7.0 billion to ₱8.0 billion in December 2014

B. Key Performance Indicators

CAR: Capital Adequacy Ratio is at 20.9%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: There was a significant improvement with regard to non-performing loans, from 2.4% in 2013 to 1.5% this year.

Profitability: Return on Average Equity (ROAE) decreased from 17.6% in 2013 to 6.9% this year.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2014 grew, from 109.7% last year to 112.2% this year.

Asset efficiency: The Return on Average Assets (ROAA) decreased, from 2.5% in December 2013 vs 1.0% in December 2014.

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition as of December 2014 vs December 2013:

As mentioned, the Bank's assets reached ₱57.6 b as of December 31, 2014 or an increase of 22.65% as compared to ₱47.2 billion in 2013. Significant changes (more than 5%) in assets were registered in the following accounts:

a. Cash and Other Cash items increased by 59.58% from ₱735.7 million in December 31, 2013 to ₱1.2 billion this year as the Bank continued with the expansion of its branch network.
b. Due from BSP grew by 26.61% from ₱3.6 billion last year to Php4.6 billion in December 31, 2014 due to the increase in deposits to BSP as a consequence of a very liquid standing during the year.
c. Loans and receivables increased by 26.9% from ₱31.6 billion to ₱40.1 billion this year due to the aggressive generation of deposits.
d. Due from other banks increased by 202.6% from ₱671.5 million to ₱2.0 billion, as a result of the increase in excess cash in the vaults of the branches deposited to our depository bank for transfer to BSP.
e. Bank Premises grew by ₱38.92 million, a 8.16% from ₱476.8 million in 2013 to ₱515.8 million as of December 31, 2014 as a result of the continued branch expansion.
f. Investment Properties increased by 58.4% from ₱445.6 million last year to ₱705.7 million this year as past due accounts were transferred foreclosed properties during the year.
g. Other resources increased by 12.59% ₱796.5 million in December 31, 2013 to ₱912.1 million as of December 31, 2014.

On the other hand, the Bank's liabilities amounted to ₱46.6 billion as of December 31, 2014. This is ₱737.4 million or 23.06% higher as compared to 2013's liabilities amounting to ₱37.9 billion. This is still due to the increase in the number of branches and an aggressive deposit campaign.

Bills Payable increased by 59.61% from ₱193.9 million in December 2013 to ₱309.5 million this year. Accrued expenses and other liabilities also increased by 60.1% from ₱2.0 billion to ₱2.9 billion in 2014.

Results of Operations for the year ended December 31, 2014 vs December 31, 2013

- This year, the Bank's core income, which is composed of the Bank's net interest income, service charges, fees and commissions, and miscellaneous income amounted to ₱935.5 million. This is an increase of ₱503.1 million from last year's core income. Net income amounted to ₱536.2 million, which is 46.6% lower from ₱1.004 billion in 2013 due to the decrease in the income from trading activities, total comprehensive income improved by 180.6% from a loss last year to a total gain of ₱1.040 billion.
- Interest income grew by 27.1% from ₱2.2 billion in December 2013 to ₱2.8 billion in 2014 due to the increase in loan volume booked during the period which increased by 26.9% YoY.
- Service charges, fees and commissions by 72.7% YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.
- Trading gains amounted to ₱34.8 million, lower than last year's gain of ₱816.8 million, a 95.7% decrease.
- Manpower costs increased by 22.1% from ₱392.7 million in 2013 to ₱479.6 million in 2014 as a result of continued business expansion

Known trends, demands, commitments, events or uncertainties

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

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2013 and

2012 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank"s financial position and results of operations.

Capital Expenditure

The Bank's capital expenditure for the year ended December 31, 2014 was ₱38.9 million was while Php78.3 million was spent for the year ended December 31, 2013. These expenses were comprised of acquisitions of bank premises, furniture, fixture and equipment used mainly for the Bank's expansion program.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2014:

In Php	**2014**
Investment management accounts	3,428,334,610
Outstanding letters of credit	512,119,342
Trust and other fiduciary accounts	281,508,984
Unit investment trust fund	103,019,963
Late deposits / payments received	13,121,910
Other contingent accounts	167,032,075
Total	4,505,136,884

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA) - an agency arrangement that involves the prudent investment of funds on behalf of the clients;

2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements; and,

3. Unit Investment Trust Fund (UITF) – is a pooled fund created to offer investment

opportunities to small investors.

The Bank has ₱8,185 million in contingent liabilities of which, ₱6,892 million or 84.2% are in trust arrangements which include investment management accounts, trust and other fiduciary accounts, and unit investment trust fund.

Selected information disclosed in the Audited Financial Statements

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.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to P18.8 million and P2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification (see Note 10), as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of ₱2,621.7 million (see Note 10). As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. In 2012, the tainting was lifted.

Management of Liquidity Risks through MCO Limits

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.

DOSRI Loans under Related Party Transactions

As of December 31, 2014 and 2013, the Bank has an approved line of credit to certain related parties totaling 230.0 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.

Earnings per Share

The earnings per share (EPS) of the Bank as of December 31, 2014 and 2013 is ₱1.10 and ₱ 2.34 respectively.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC17-A as "ANNEX A".

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Punong Bayan and Araullo (P &A) , a member firm of Grant Thornton International Limited, has been the bank's independent accountant for the last seven (7) years and is again recommended for appointment at the scheduled stockholders meeting.

None of the Bank's external auditors have resigned during the most recent fiscal years (2013 and 2014) or any interim period. In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five (5) years of engagement, Mr. Benjamin P. Valdez was assigned in 2011 as an independent reviewer and partner in charge for the bank replacing Mr. Francis Albalate who was assigned since 2006. Representatives of P&A are expected to be present at the meeting to respond to matters relating to the Auditor's report on the 2014 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A and Co relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank's financial statement :

Audit Fees For	In Php
Dec 31, 2011 (full year)	721,412.31
Jun 30, 2012	752,640.00
Sep 30, 2012	978,432.00
Dec 31, 2012 (full year)	824,320.00
Dec 31, 2013 (full year)	2,609,152.00
Dec 31, 2014 (full year)	2,475,405.61

No other services were rendered by P&A and Co that were not related to the audit and review of the Bank's financial statements.There were no disagreements with P&A and Co on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The following individuals are members of the PBB's Board of Directors and Senior Management:

Name	Age	Nationality	Position with the Bank	Date of election
Amb. Alfredo M. Yao	69	Filipino	Chairman Emeritus	Jul 26, 2010
Francis T. Lee	65	Filipino	Chairman	Apr 30, 2010
Peter N. Yap	66	Filipino	Vice Chairman	Dec 30, 1899
Rolando R. Avante	54	Filipino	President and Chief Executive Officer	Nov 2, 2011
Amador T. Vallejos, Jr.	66	Filipino	Director	Apr 27, 2012
Jeffrey S. Yao	45	Filipino	Director	Dec 30, 1899
Honorio O. Reyes- Lao	68	Filipino	Director	Apr 29, 2011
Paterno H. Dizon	75	Filipino	Independent Director	Apr 27, 2012
Leticia M. Yao	60	Filipino	Director	Apr 29, 2011
Robert S. Santos	64	Filipino	Corporate Secretary and Internal Legal Counsel	Aug 22, 2012
Benjamin R. Sta. Catalina, Jr.	65	Filipino	Independent Director	Jul 16, 2012
Joseph Edwin S. Cabalde	43	Filipino	Treasurer	Jul 16, 2012

Alice P. Rodil	56	Filipino	Controller	Jul 20, 2001

Alfredo M. Yao (Filipino, 69 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of the Board of PBB. He is also currently the Chairman of Zest-O Corporation, Semexco Marketing Corp., and Asiawide Refreshments Corp. He is currently serving as President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. He also sat as a director of Export and Industry Bank. He has had training in Corporate Governance with Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He has had training on CISA – Credit Bureau, and on SME Related Issues and other CTB Related issues with the Senate of the Philippines. He also attended a Risk Management Awareness Seminar given by the Pacific Management Forum and PBB, and he had attended a PCCI Business Forum, given by PCCI.

Francis T. Lee (Filipino, 65 years old)

Mr. Francis T. Lee the Chairman of the Board of PBB. From 1988 to 2000, he held several managerial and executive positions in Metrobank, including Senior Manager, Assistant Vice-President, Vice-President, First Vice-President, and Senior Vice-President. From 2002 to 2003, he was a Director of Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He has had training in Corporate Governance & Risk Management for Bank's Board of Directors, and Risk Awareness, and has attended seminars given by the Bankers Institute of the Philippines.

Peter N. Yap (Filipino, 65 years old)

Mr. Peter N. Yap is the Vice Chairman of the Board. From 1978 to 2009 he had held several managerial and executive positions in Allied Banking Corporation, including Senior Manager, Assistant Vice-President and Area Supervisor, Vice-President and Area Supervisor, Senior Vice President and Area Supervisor, and Executive Vice President of Retail Banking Group. He was then also concurrently serving as Director and Treasurer of Bancnet, Inc. from 2003 to 2009.

From 2009 to 2010, he served concurrently as a Director of Allied Savings Bank, and of Allied Leasing & Finance Corporation.

Rolando R. Avante (Filipino, 54 years old)

Mr. Rolando R. Avante is the President and CEO of PBB. From 1979 to 1983 he was a Senior Manager at the Multinational Investment and Bancorporation, and from 1983 to 1988 he was a Senior Manager at Philippine Commercial Capital Inc. He was the Vice-President for Local Currency Desk at Citytrust Banking Corp from April 1988 to August 1994, and he was the Senior Vice-President and Treasurer at Urban Bank from September 1994 to January 1995. In February 1995, he became the First Vice-President for Domestic Fund Management at PCI Bank, which position he held until November of 1999. From December 1999 to June 2009, he was the Executive Vice President and Treasurer of Chinatrust (Philippines), and from November 2009 to December 2011 he was the

Executive Vice President and Treasurer of Sterling Bank of Asia.

Mr. Amador T. Vallejos, Jr. (Filipino, 66 years old)

Mr. Amador T. Vallejos, Jr. has been a Director of PBB since May 1997. He is currently a Director of the Philippine Association of Food Technology, Philippine Chamber of Food Manufacturers and the Philippine Article Numbering Council. He is also currently serving as the General Manager of Amchem, as the Chairman of King of Travel, and as the President of SM Development Company. He is a member of the Professional Risk Managers International Association.

Mr. Jeffrey S. Yao (Filipino, 45 years old)

Mr. Jeffrey Yao has been a Director of PBB since 1999. He currently holds the position of member of the Board of Director in Asiawide Refreshment Corporation and Zest Air. He also sat as director of Export and Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012). He is currently serving as Chief Operating Officer of Zest-O Corporation.

Mr. Honorio O. Reyes- Lao (Filipino, 68 years old)

Mr. Honorio O. Reyes-Lao has been a Director of PBB since April 2010. From 1991 to 2004 he held various managerial and executive positions in China Banking Corporation, concurrently serving as a Director of CBC Properties Computer Center, Inc. and CBC Forex Corporation (from 1997 to 2002). He also served as a Director and Treasurer of CBC Insurance Brokers; Senior Management Consultant for East West Banking Corp., and as a consultant for the Antel Group of Companies. From 2008 to 2009, he was the President of Gold Venture Lease & Management Services, Inc. He is also currently an Independent Director of DMCI Holdings Corporation.

Mr. Paterno H. Dizon (Filipino, 74 years old)

Mr. Dizon is elected Independent Director of PBB. His work experience include having served as Director in various corporations such as Export & Industry Bank (a bank placed under receivership by order of the Bangko Sentral ng Pilipinas issued in April 2012), Hermosa Ecozone Development Corporation, EIB Securities. He also served as the President of Science Park of the Philippines, Cebu Light Industrial Park, and of RFM Science Park of the Philippines and Holy Cross College. He is currently a Director of Philippine Export-Import Credit Agency, and is the Chairman of Philippine Exporters Confederation, Inc.

Mr. Benjamin R. Sta. Catalina, Jr. (Filipino, 65 years old)

Mr. Benjamin R. Sta. Catalina, Jr. has been an Independent Director of PBB since July 2012, although he had previously served as an Independent Director from 2003 to 2005. From 1994 to 1995 he was concurrently the Vice President/Group Head of the Pan Asian Corporate Team of Citibank N.A., and the Vice President/Chief of Staff of the Global Finance Marketing Group of Citibank, N.A. From January 1996 to July 1996 he served as the Executive Director of the Center for Banking & Financial Management of the Asian Institute of Management.

Leticia M. Yao (Filipino, 60 years old)

Ms. Leticia M. Yao is elected Director of PBB. She graduated from the University of Sto. Tomas in 1983 with a Degree in Medicine. She had training in Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002. She has also taken a risk Awareness Seminar at the Pacific Management Form of PBB in 2009. She was a Director of PBB from 1998 to 2007.

Mr. Joseph Edwin S. Cabalde (Filipino, 42 years old)

Mr. Joseph Edwin S. Cabalde is the Bank's Treasurer and holds the position of Senior Vice-President and Head of the Treasury Services Group. His work experience includes: Accounting Assistant and Assistant Secretary Head of China Banking Corporation (1991 to 1993), Treasury Officer of Urban Bank Inc. (1993 to 1995), Manager and Chief Dealer of Bangkok Bank Manila, and of Bank of Tokyo Mitsubishi (1995 to 2004), Treasury Head of Oilink International (2004 to 2007), Assistant Vice-President and Treasurer of EEI Corporation (2007 to 2008).

Ms. Alice P. Rodil (Filipino, 56 years old)

Ms. Alice P. Rodil has been the Senior Vice President and Comptroller of PBB since 2001. A Certified Public Accountant, and a member of the Philippine Institute of Certified Public Accountant. From 1979 to 1988 she was a member of the Forex Club of the Philippines. From 1991 to 2001 she was a member of Bank Administration Institute International, Philippine Chapter, and from 2001 to 2002, she served as one of its Directors. From 1992 to 1998 she was a Senior Manager at UCPB. In 1998 she began her career with PBB as a Consultant of the Controllership Group. In 1999, she became the Vice President of the Accounting Group..

Atty. Roberto Santos (Filipino, 64 years old)

Atty. Roberto S. Santos is the Vice-President/Head of the Legal Services Center and Remedial and Special Assets Management Group. In his 40-year experience in banking and finance, he was a Manager with Traders Royal Bank since 1980 and subsequently held various executive positions with Security Bank from 1982 to 1999 and was also General Manager of Security Finance Company from 1997-2001. He was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004 and joined PBB as Assistant Vice-President in 2008.

Identify Significant Employees

Although PBB has relied on and will continue to rely on, the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Amb. Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Amb. Yao.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers and nominees for election as directors.

Involvement in Certain Legal Proceedings

1. The following administrative and criminal cases mentioned below are cases filed (and still pending against the Bank) by a certain Nimfa Simbulan ("Simbulan") and her siblings which the Bank considered as harassment suits as the Bank was caught in the crossfire between the complainant and one of the respondents, Jose C. Lee (a client of the bank, "Lee"). The complainant, Nimfa Simbulan, is demanding payment for alleged damages she sustained by virtue of an alleged mortgage loan with the Bank which, based on the Bank's records, does not exist.

The following cases arose from a controversy between Lee, who was the one who actually obtained a loan from the bank, and Simbulan. The Bank was caught in the crossfire since the release of the loan was made using the facilities of the Bank upon the request of Lee. Simbulan was of the belief that a mortgage loan was obtained from the Bank in her name and that a savings account was opened in her name, both without her knowledge and consent.

The Bank, in all its submissions to the respective judicial and quasi-judicial offices where the following cases are pending, has categorically stated that no such mortgage loan in the name of Simbulan exists in its records. Further, the Bank maintains its position that the opening of the savings account in Simbulan's name was done in accordance with its regular procedure for opening of accounts for each and every client.

a. On January 27, 2012, an administrative case was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Rolando R. Avante, Elizabeth S. Cheung, et al. for alleged Violation of Sec. 55.1 (a) Participating in Fraudulent Transaction) of Republic Act No. 8791 (General Banking Law of 2000) with the Office of Special Investigation (OSI) of the Bangko Sentral ng Pilipinas under OSI Adm. Case No. 2012-001 filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz. In this case, Simbulan alleged that the Bank and the impleaded officers participated in defrauding her when they approved the alleged loan and mortgage agreement and opened the savings account. As previously stated the Bank denied these allegations and insisted that no mortgage loan in the name of Simbulan exists in records of the Bank. The case is now pending with the Supervised Banks Complaints Evaluation Group, Office of the General Counsel and Legal Services of the Bangko Sentral ng Pilipinas.

b. On February 16, 2012 a criminal complaint was filed by Nimfa Simbulan thru her AIF, Dyan S. dela Cruz against Elizabeth S. Cheung, Rolando R. Avante and Alfredo M. Yao, et al. at the Prosecutor's Office of Quezon City docketed as IS No. XV-03-INV-12B-01508 for alleged Violation of Republic Act No. 8791. The allegations in this case are similar to the allegations in the immediately preceding item, thus bolstering the Bank's position that this is a harassment suit. This case has already been dismissed by the Prosecutor's Office of Quezon City. The Complainant appealed said Resolution though to the Department of Justice.

2. On March 22, 2002, Mr. Tomas Tan of CST Enterprise, Inc. (CST) filed a derivative suit as a minority stockholder against Philippine Business Bank, et al., for the Declaration of Unenforceability of Promissory Notes and Mortgage, Injunction and Damages with Prayer for Temporary Restraining Order or Writ of Preliminary Injunction. The case arose from a loan obtained by CST, as represented

by John Dennis Chua and secured by Real Estate Mortgage over TCT nos. 124275 and 157581. CST defaulted in the payment of the loans constraining PBB to commence the necessary foreclosure proceedings on the mortgaged properties. However, the minority stockholder, Tomas Tan, alleged that the loan was fraudulently obtained and sought for its nullification. The case is still pending in RTC 66 – Makati City. In the same case, PBB filed a cross claim against Felipe Chua and successfully obtained a Summary Judgment (and was executed), however, defendant/cross-defendant Felipe Chua appealed the Order of execution pending appeal, wherein the Supreme Court eventually ordered to remand the case back to the RTC 66-Makati City for further trial. True enough, RTC 66 – Makati City already rendered a Decision dismissing the Complaint. However, Plaintiff moved for reconsideration of the said RTC 66's Decision. Even if an adverse decision will be finally judged against the Bank on this civil case, the Bank believes it will not have an adverse material effect on its operations.

In fact, the criminal case for Syndicated Estafa filed by Mr. Tomas Tan and his group against some of the Bank's past and incumbent directors/officers with the Office of the City Prosecutor of Caloocan City docketed as I.S. No. XV-02-INV-13B-0874 entitled "Tomas Tan versus Rodulfo Besinga, et.al." has already been dismissed though the Complainant filed Motion for Reconsideration thereto.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In Php millions		Aggregate Compensation Paid as a Group	
NAME	**POSITION**	**2013**	**2014**
CEO and the four (4) most highly compensated officers of the Bank namely: Rolando R. Avante Alice P. Rodil Raymond T. Co Joseph Edwin S. Cabalde Keith S. Chan	 President & CEO Senior Vice President Senior Vice President SVP / Treasurer IT Head	28.93	20.89

Total Aggregate Compensation of the CEO and the Top 4 Most Highly Compensated Officers of the Bank:	Salary	Other Compensation	Bonus	Total
2013	5.78	13.89	9.26	28.93
2014	10.02	6.68	4.17	20.89

Compensation of Directors

Each director of the Bank receives a per diem allowance of Php20,000.00 determined by the Board of Directors for attendance in a Board meeting and a Php5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of Php5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

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

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	159,892,207	37.26%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	108,035,282	25.17%
Common	Francis T. Lee 15 Masigla St. East Avenue, Quezon City Chairman of the Board	The record owner is the beneficial owner of the shares indicated	Filipino	30,375,000	6.34%
Total Common Shares				298,302,489	69.51%

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately [7.76%] percent of the Company's issued and outstanding common stock as of March 31, 2015 as follows:

Name of Director	Nationality	Present Position	No. of Shares	%
Francis T. Lee	Filipino	Chairman	30,375,000	10%
Peter N. Yap	Filipino	Vice Chairman	209,810	negligible
Jeffrey S. Yao	Filipino	Director	1,080,357	negligible

Leticia M. Yao	Filipino	Director	1,120,357	negligible
Rolando R. Avante	Filipino	President & CEO	125,072	negligible
Amador T. Vallejos, Jr.	Filipino	Director	25,717	negligible
Benjamin R. Sta. Catalina, Jr.	Filipino	Director	37,572	negligible
Paterno H. Dizon	Filipino	Director	87,572	negligible
Honorio O. Reyes-Lao	Filipino	Director	160,000	negligible
Roberto A. Atendido	Filipino	Director	72,500	negligible
Joseph Edwin S. Cabalde	Filipino	Treasurer	6,250	negligible
Atty. Roberto S. Santos	Filipino	Internal Legal Counsel and Corporate Secretary	10,000	negligible

The aggregate shareholdings of the Bank's Directors and Officers as a group is 7.8%.

Voting Trust Holders of 5% or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

As of the December 31, 2013, the following are the significant transactions of the Bank in the normal course of business with related parties, as reflected in the interim audited financial statements of the Bank:

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:

	December 31, 2014	December 31, 2013
Total outstanding DOSRI loans	1,250,656,442	1,214,795,439
% to total loan portfolio	3.2%	4.0%
% of unsecured DOSRI loans	0.0%	1.0%
% of past due DOSRI loans	0.3%	0.0%

The Bank has no unsecured loan that is subject to 30 per cent aggregate DOSRI ceiling. Unsecured DOSRI loans to the officers of the Bank, which are subject to the 5 per cent ceiling for loans under fringe benefits program under MORB, amounted to Php23.0 million and Php18.1 million, as of December 31, 2013 and 2012, respectively.

The details of total outstanding DOSRI Loans for the year ended December 31, 2014 and 2013 are shown below:

	2014	2013
Commercial loans	**P 1,192,734,492**	P 1,191,009,750
Key management personnel	**34,421,951**	23,048,927
Other related party	**-**	736,762
	P 1,227,156,443	P 1,214,795,439

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Philippine Business Bank, Inc. commits to the highest standards of good corporate governance in realizing its vision and mission. The Bank believes that sound corporate practices based on fairness, accountability and transparency is essential in achieving growth and stability as well as enhancing investor confidence.

The Bank aims to create and sustain value for its various stakeholders. To achieve this, the Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility. The Bank accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of the employees.

The Board of Directors conducts its functions as a full Board and through its six (6) committees, namely: Executive, Trust, Corporate Governance and Nomination, Audit, Risk Management and Manpower, Compensation and Remuneration. Board-approved Corporate Governance policies are contained in the Manual of Corporate Governance which is based on the Corporate Code of the Philippines, Securities Regulations Code, SEC Revised Code of Corporate Governance and relevant provisions of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. Every member of the organization of Phlippine Business Bank, Inc. is informed of these policies.

The Bank's Code of Ethics ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. To further emphasize its commitment to integrity, the Philippine Business Bank, Inc., under its Whistle Blowing Policy, encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The policy protects in confidence the identity of the employee who disclosed the suspected offence within the organization.

Philippine Business Bank, Inc. values the contribution of its employees in fostering a culture of good corporate governance. The Human Resource Group and the Personnel Committee ensure that interests and concerns of personnel are heard and addressed.

Going beyond adherence to regulatory framework, Philippine Business Bank, Inc. fosters a culture of partnership within its organization to ensure that long-term success and performance of the Bank are achieved.

The Corporate Governance and Nomination Committee leads the Bank in defining corporate governance policies and attaining best practices. As one of its strategic governance roles, the Corporate Governance and Nomination Committee reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate

Governance and the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. The Committee is assisted by the Compliance Office led by the Chief Compliance Officer in the implementation of its mandates.

The Committee, consisting of two (2) independent directors (one of whom acts as chairperson) and one (1) regular director meets every two months.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits

Annex A ….......	Audited Financial Statements
Annex B . . …...	Annual Corporate Governance Report

(b) Reports on SEC Form 17-C

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of _______________________ on 15 APR 2015, 20__.

By:

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
President and Chief Executive Officer

JOSEPH EDWIN S. CABALDE
Senior Vice-President and Treasurer

ATTY. ROBERTO S. SANTOS
Corporate Secretary

ALICE P. RODIL
Senior Vice-President and Controller

SUBSCRIBED AND SWORN to before me this _____ day of 15 APR 2015 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	TIN NO.
FRANCIS T. LEE	113-336-814
ROLANDO R. AVANTE	106-968-623
ROBERTO S. SANTOS	123-467-623
JOSEPH EDWIN S. CABALDE	117-482-086
ALICE P. RODIL	107-200-588

Notary Public

ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public
Until December 2015
Roll of Attorney's No. 58988
IBP OR No. 0991041/01.21.15/Calamana
PTR OR No. 6887016/01.21.15/Caloocan
MCLE Compliance No. IV-0021928/09.11.13

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PHILIPPINE BUSINESS BANK
a savings bank

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

'16 APR 2015
SUBSCRIBED AND SWORN TO BEFORE ME
THIS ____ OF ____ QUEZON CITY, PHILIPPINES
AFFIANT EXHIBITED TO ME HIS/HER CTC NO ____
ISSUED ON ____ AT ____

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Page No.: 58
Book No.: 124
Series of: 2015

BUREAU OF INTERNAL REVENUE
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ATTY. BENJAMIN F. ALFONSO
NOTARY PUBLIC
UNTIL December 31, 2016
PTR NO. 0682987-C- 1-20-15 - QUEZON C
IBP NO. 975600 12-11-2014 - QUEZON C
ROLL NO. 13296
ADM. MATTER NO. NP -144 (2015 - 2016)
TIN NO. 177967619
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350 Rizal Ave. Extension cor. 8th Ave., Grace Park, Caloocan City, Philippines | Tel. No. (632) 363-3333

Punongbayan & Araullo

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Report of Independent Auditors

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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

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

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
R E S O U R C E S			
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.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Additional Paid-in Capital	Surplus		Revaluation Reserves		Total Equity
		Preferred Stock	Common Stock		Appropriated	Unappropriated	Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	
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 1,043,281,000)	(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	-	2,000,000,000	-	-	(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 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

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos or As Indicated)

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 Combination*s. 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

(c) 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	**P14,216,359**	**P 9,333,256**	**P 8,449,762**	**P16,818,878**	**(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	P15,797,179	P 5,729,427	P 3,568,009	P14,167,622	(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				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+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	**P1,887,628,525**	**(P 191,226,411)**	**(P 573,679,231)**	**(P 956,132,052)**

		2013		
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P6,443,905,313	(P 793,397,339)	(P2,380,192,018)	(P 3,966,986,687)
US dollar	2,381,775,407	(299,110,963)	(897,332,890)	(1,495,554,817)
Total	P8,825,680,720	(P1,092,508,302)	(P3,277,524,908)	(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)*	**P 7,760,034**	**P 18,858,568**	**P 11,585,834**	**P 19,650,079**	**P 57,854,515**

	2014				
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Total**
Total Resources *(balance brought forward)*	P 7,760,034	P 18,858,568	P 11,585,834	P 19,650,079	P 57,854,515
Liabilities and Equity:					
Deposit liabilities	2,265,575	20,325,396	3,454,604	20,573,833	46,619,408
Bills payable	-	299,604	4,327	5,591	309,522
Accrued expenses and other liabilities	110,287	2,324,280	436,649	29,706	2,903,219
Total Liabilities	2,375,862	22,949,280	3,897,877	20,609,130	49,832,149
Capital Funds	-	-	-	8,022,366	8,022,366
Total Liabilities and Capital Funds	2,375,862	22,949,280	3,897,877	28,631,496	57,854,515
On-book Gap	5,384,172	(4,090,712)	7,687,957	(8,981,417)	-
Cumulative On-book Gap	5,384,172	1,293,460	8,981,417	-	-
Contingent Resources	-	-	-	-	-
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	5,307,705	(4,487,710)	7,516,071	(9,028,481)	(692,415)
Cumulative Total Gap	**P 5,307,705**	**P 819,995**	**P 8,336,066**	**(P 692,415)**	**P -**

	2013				
	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 735,668	P -	P -	P -	P 735,668
Due from BSP	3,597,209	-	-	-	3,597,209
Due from other banks	671,483	-	-	-	671,483
Trading and investment securities	483,021	117,517	335,466	7,898,333	8,834,337
Loans and other receivables	6,354,668	7,024,050	10,420,255	7,800,940	31,599,913
Other resources	468,341	-	65,115	1,185,563	1,719,019
Total Resources	12,310,390	7,141,566	10,820,836	16,884,836	47,157,629
Liabilities and Equity:					
Deposit liabilities	16,395,969	4,468,533	1,463,864	15,553,645	37,882,011
Bills payable	49,454	115,235	3,096	26,142	193,927
Accrued expenses and other liabilities	769,028	1,073,022	42,700	170,462	2,055,212
Total Liabilities	17,214,451	5,656,790	1,509,660	15,750,249	40,131,150
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	(P 4,980,528)	(P 3,892,750)	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	4,260
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, 2013	
	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 liabilities	**Financial assets available for set-off**	**Collateral given**	**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 liabilities	Financial assets available for set-off	Collateral given	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
Capital expenditures	P 27	P 2	P 10	P 39
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

	Corporate Banking	Consumer Banking	Treasury Operations	Total
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)**	(P1,043,281,000)	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	P 110,257,855	P 299,261,604	P 120,355,469	P 409,639,438	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**	**P 173,572,208**	**P 515,766,476**
December 31, 2013						
Cost	P 77,747,556	P 100,487,964	P 257,715,168	P 108,189,288	P 259,172,230	P 803,312,206
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	P 476,837,632
January 1, 2013						
Cost	P 77,747,556	P 95,129,253	P 203,109,351	P 90,288,943	P 203,031,977	P 669,307,080
Accumulated depreciation and amortization	-	(26,939,121)	(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	P 110,264,716	P 398,495,157

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	P 110,864,331	P 59,323,780	P 158,068,001	P 476,837,632
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**	**P 119,541,383**	**P 60,828,130**	**P 173,572,208**	**P 515,766,476**
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 77,747,556	P 68,190,132	P 84,758,423	P 57,534,330	P 110,264,716	P 398,495,157
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	P 110,864,331	P 59,323,780	P 158,068,001	P 476,837,632

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
	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**	P2,420,000,000
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**	P3,433,334,000

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
		P144,153,797	P 38,228,379	P104,216,068

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
	P221,974,156	P172,786,419	P208,406,187

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 Assumption	**Increase in Assumption**	**Decrease in 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	**P6,684,121,984**	**P 6,679,050,225**	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)	**P176,802,660**	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)
	P242,439,233	P123,727,024	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%	**P233,593,301**	P338,332,091	P213,345,519
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	**P242,439,233**	P123,727,024	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%
Liquidity ratio			
Current assets / Current liabilities	**1.3**	1.2	0.8
Debt-to-equity ratio			
Liabilities / Equity	**6.2**	5.7	6.5
Asset-to-equity ratio			
Asset / Equity	**7.2**	6.7	7.5
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**2.3**	3.3	2.1

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2014 and 2013, bills payable are the only secured liabilities (see Note 19).

29. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2014	2013 (As Restated)	2012 (As Restated)
Net profit	**P 536,205,104**	P 1,004,046,612	P 654,589,562
Dividends on preferred shares	**(62,325,000)**	-	(100,350,000)
Net profit attributable to common shareholders	**473,880,104**	1,004,046,612	554,239,562
Divided by the weighted average number of outstanding common shares	**429,166,750**	429,166,750	302,500,000
Basic earnings per share	**P 1.10**	P 2.34	P 1.83

The 2013 and 2012 earnings per share of the Bank were restated to account for the stock dividends declared in 2014 which is considered as a bonus issue under PAS 33, *Earnings per Share*, which requires stock dividends issued to be recognized as if it occurred at the beginning of 2012, the earliest period presented for earnings per share computation.

As of December 31, 2014, 2013 and 2012, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share are equal to diluted earnings per share.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

30.1 Requirements Under Revenue Regulation (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year under RR 15-2010 follows:

(a) Gross Receipts Tax (GRT)

In lieu of the value-added tax, the Bank is subject to the GRT, pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2014, the Bank reported total GRT amounting to P154,450,668 shown under Taxes and Licenses account [see Note 30.1(c)]. GRT paid during the year amounted to P127,453,389, exclusive of December 2013 GRT paid during 2014. Total GRT payable as of December 31, 2014 amounted to P26,997,279 , included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2014 statement of financial position (see Note 20).

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income

(b) Documentary Stamp Tax (DST)

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2014, DST remittance thru e-DST amounted to P105,681,035, while DST on deposits for remittance amounts to P77,723,124. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2014 amounting to P67,108,300 were charged to borrowers and these were properly remitted by the Bank.

(c) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2014 follow:

	Note		
Gross receipts tax	30.1(a)	P	154,450,668
DST			116,295,859
Deficiency tax			20,553,703
Business tax			10,650,014
Real property tax			3,755,043
Miscellaneous			646,831
		P	306,352,118

Taxes and licenses allocated to tax exempt income and FCDU totaling P18,072,180 were excluded from the itemized deductions for purposes of income tax computation (see Note 25).

(d) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2014 are shown below.

Final	P	115,740,177
Compensation and benefits		59,546,505
Expanded		23,592,888
	P	198,879,570

(e) Deficiency Tax Assessments and Tax Cases

In 2014, the Bank paid final deficiency taxes on DST, withholding taxes and gross receipts tax for taxable year 2009 totalling P20,553,703.

(f) Other Required Tax Information

The Bank did not have any transactions in 2014, which is subject to excise tax, customs duties and tariff fees.

30.2 Requirements Under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Bank's RBU is taxed separately from the FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2014 statement of profit or loss, which are based on PFRS.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2014 at the regular tax rate pertain to interest income amounting to P2,232,817,155.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2014 at the regular tax rate comprise the following:

Salaries and wages	P 420,525,687
Interest expense	388,059,253
Insurance	80,353,455
Supervision/examination fees	18,671,053
	P 907,609,448

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2014 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P 125,415,791
Gain on sale of properties	57,218,119
Realized trading gains	4,338,794
Others	13,436,027
	P 200,408,731

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2014 subject to regular tax rate follow:

Taxes and licenses	P 277,649,808
Management and other professional fees	107,659,339
Depreciation	103,442,536
Rental	93,564,351
Repairs and maintenance	72,187,588
Communication, light and water	51,368,827
Transportation and travel	41,702,694
Fuel and oil	36,367,837
Representation	24,206,666
Litigation	22,716,593
Insurance	22,140,079
Office supplies	13,164,384
Amortization of computer software	13,001,467
Advertising and promotion	9,133,392
Janitorial and messengerial	6,374,543
Charitable contribution	5,921,788
Information technology	1,927,098
Others	33,745,250
	P 936,274,240

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.

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

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[2]

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

(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).

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

	Guidelines	Maximum Number of Directorships in other companies
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 shares / 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.
Accountabilities	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.

	Chairman	Chief Executive Officer
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	Acts in the best interest of the Bank; establishes a balance between the interests of management and shareholders.

	Executive	Non-Executive	Independent Director
		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.	
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.
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-

Procedure	Process Adopted	Criteria
c. Permanent Disqualification		
(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 corporation 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

Procedure	Process Adopted	Criteria
		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-
(iii) Independent Directors	-do-	-do- 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

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[3] 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
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

[3] 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
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:

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.

Business Conduct & Ethics	Directors	Senior Management	Employees
(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.
(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,	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
	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		
(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	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
		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.	
(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. 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.
(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	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

Business Conduct & Ethics	Directors	Senior Management	Employees
	unpopular. Corollary to this, he should support plans and ideas that he thinks will be beneficial to the Bank;		

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. 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.

Related Party Transactions	Policies and Procedures
	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. 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.
(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. 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. 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. 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.
(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.

Related Party Transactions	Policies and Procedures
	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. 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. 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.
(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. 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. 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.

Related Party Transactions	Policies and Procedures
	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. 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: 1. AMY Holdings, Inc. 2. Zest-O Corporation 3. Semexco Marketing Corporation 4. ARC Holdings, Inc. 5. Onnea Holdings, Inc. 6. Zemar Devt, Inc. 7. Bev-Pack, Inc. 8. Asiawide Refreshments Corporation 9. Amchem Marketing, Inc.
2. Leticia M. Yao	Ms. Leticia M. Yao is also a non-executive/executive director of: 1. AMY Holdings, Inc. 2. Harman Foods Phils, Inc. 3. Uni-Ipel Industries, Inc.. 4. Zest-O Corp. 5. SMI Dev't Corp.

Name of Director	Details of Conflict of Interest (Actual or Probable)
3. Amador T. Vallejos	Mr. Amador T. Vallejos is also an executive director of: 1. SMI Development Corp. 2. King of Travel 3. Professional Risk Managers International Association (PRMIA) 4. Downtown Realty Corporation 5. Amchem Marketing, Inc.
4. Roberto A. Atendido	Mr. Roberto A. Atendido is a director of: 1. Pharma-Rex, Inc. 2. Macay Holdings, Inc. 3. Asian Alliance Holdings 4. Asian Alliance Investment, Inc. 5. Paxy's Inc. 6. Sinag Energy Phils, Inc. 7. Myka Advisory & Consultancy Services, Inc. 8. Paper Industries Corp. of the Phils. 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 Significant Stockholder/s 1. Mr. Alfredo M. Yao	Mr. Alfredo M. Yao is a significant stockholder of: 1. Money Movers, Inc. 2. AMY Holdings, Inc. 3. Zest-O Corporation 4. Semexco Marketing Corporation 5. Arc Holdings, Inc. 6. SMI Development Corporation 7. Downtown Realty Corporation 8. Bev-Pack, Inc. 9. Asiawide Refreshments Corporation 10. Mega Asia Bottling Corporation 11. Amchem Marketing, Inc. 12. Harman Foods, Inc. 13. Zest Airways, Inc. 14. Uni-Ipel Industries, Inc. 15. Solmac 16. Onnea Holdings, Inc. 17. Zemar Devt, Inc. 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. 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. 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. 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. 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. 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. 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,[4] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
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.
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.

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

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
Independent	Paterno H. Dizon	05.30.14	13	13	100
Independent	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[5] 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.

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

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

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. 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 Bank.	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 June 28, 2013 May 30, 2014.
Each director receives per diem allowance for his attendance at each meeting of the Board.	April 27, 2012 June 28, 2013 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 Coverage	21,337.00 4,000,000.00	47,000.00 20,700,000.00	20,000.00 4,700,000.00
(f) Hospitalization Plan	300,000.00	237,314.86 1,800.000.00	128,022.00 600,000.00
(g) Car Plan	3,000,000.00		
(h) Others (Specify)			
Total		284,314.86 22,500,000.00	148,022.00 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 <u>not</u> 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	Key Responsibilities	Power
	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)	Performs functions delegated by the BOD as provided for in the By-Laws of the Bank.	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.

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
				members from the Board of Directors.			
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.	*1.* Review and approve the audit scope and frequency *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; 2. Full access to and cooperation by management; 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.

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	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. 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.	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.	*1.* Assist the Board of Directors in fulfilling its corporate governance responsibilities. *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. *3.* Ensure the Board's effectiveness and due observance of corporate governance principles and guidelines	1. Determine whether or not a Director is able to and has been adequately carrying out his/her duties as Director. 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. 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.

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
				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		*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. *5.* Conduct an annual self-evaluation of the performance of the Committee at least thirty (30) days prior to the annual stockholders' meeting. *6.* In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by	

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	**Non-executive Director (NED)**	**Independent Director (ID)**				
						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. *7.* It shall consider the following guidelines in the determination of the number of directorships for the Board: • The nature of the business of the corporation of which he is a director; • Age of the director; • Number of directorship/ active memberships and officerships in other corporations or organizations; and • Possible conflict of interest. *8.* Performs compliance	

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
						functions. • 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; • 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; • Review the Bank's Code of Conduct,	

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
						Manual of Corporate Governance. "Whistle – Blowing" Program and recommend any changes it deems necessary to the Board; • Ensure adherence to the Bank's Code of Conduct and faithful observance on the Manual of Corporate Governance. • 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; • Receive reports from the Chief Compliance Officer and other members of	

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
						Management regarding compliance issues that may arise; and • Provide guidance and support to the relevant work of the Compliance Office. • Prepare and issue the report and evaluation required under the "Committee Reports"	
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	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, 2. Ensure that the existing Human Resources Development or Personnel Handbook are reviewed regularly to	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. 2. Disallow any director to decide his or her own remuneration.

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
					bank's culture, strategy and control environment. 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.	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.	
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	1. Ensure that fiduciary activities are conducted in accordance with applicable laws, rules, and regulations, and prudent practices;	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.	

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
				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.	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; 3. Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities; 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; 5. Oversee and evaluate		

Committee	No. of Members: Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)	Committee Charter	Functions	Key Responsibilities	Power
					performance of the Trust Officer; 6. Conduct regular meetings at least once every quarter, or more frequently as the Committee deemed it necessary; 7. Report regularly to the BOD on matters arising from fiduciary activities. 8. Ensure that the responsibilities vested to the Trust Officer are properly performed.		
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	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	1. Responsible for the development and oversight of the risk management program of the Bank and its trust unit. 2. Identify and evaluate exposures of the Bank. 3. Develop risk	The Risk Oversight Committee shall, where appropriate, have access to external expert advice

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
				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.	corrective actions are taken whenever limits are breached. 2. Oversee the activities of the Risk Management Center and the Chief Risk Officer relative to the discharge of their functions.	management strategies. 4. Oversee the implementation of the risk management program of the Bank. 5. Review and revise the program as needed.	

2) Committee Members

(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 Committe e
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: a. Identification of risks b. Evaluation of risk exposures	1. Promoted asset/loan portfolio diversification through: a. Provided guidance on internal management of real estate exposure through the implementation of

Name of Committee	Work Done	Issues Addressed
	c. Development of risk management strategies d. Oversight of the implementation of risk management strategies 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. 2. Presented risk oversight reports to the Board and raised critical issues when needed. 3. The Committee had deliberations on proposed risk policies covering credit, market & liquidity, operational and other risks.	internal limits. The objective of which is that the Bank's real estate exposure is within levels that management deems practicable. b. Provided guidance on exposures of loan portfolio under the "Wholesale and Retail Trade" industry. 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. 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. 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). 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. 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. 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.

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 • 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. • Anti-Money Laundering.
Corporate Governance/ Nomination	• Monitored the compliance of the Corporate Governance Manual • Reviewed and approved the Revised Corporate Governance Manual; • Reviewed and approved the revised performance appraisal rating system; and • Pre-screened and endorsed persons nominated to the Board as well as candidates for other positions requiring appointment by the Board of Directors. • Reviewed the training program of the Bank for its officers and employees.	• Compliance with the provisions of the Corporate Governance Manual. • Integration of the Corporate Governance Compliance System into the Revised Corporate Governance Manual; • Inclusion of the objectives and key performance indicators; and • Fit and proper, including professional qualifications of candidates seeking election to, and appointment by the Board. • Relevance and sufficiency of topics for a training module.
Remuneration	• Aligning the compensation of Senior Officer to the market • Employee Promotion • Implementation of Annual PAR • Update Fringe Benefit Manual	• Addressed the compensation competitiveness of the Bank for senior Officers • Recognized/ Reward deserving employees • Adjustment of annual merit for the PAR coverage from monthly (anniversary date) to annual (calendar year) • 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 • Regularly review the performance of Trust	• Budget plan for Trust • Entrust Trust income and expenses are within approved budget.

Name of Committee	Work Done	Issues Addressed
	• The Trust Committee performed the annual review of the outstanding trust accounts. • The Trust Committee thoroughly reviewed and approved all the investment outlets of Trust • Performed extensive assessment of TIC counter parties	• Comprehensive and periodic independent accounts review. • Proper evaluation of all the risks involved in each investment outlet, including client directed investments. • 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: • To establish a standard and impartial operating performance evaluation of branches and other auditee units; • To determine compliance with established policies/procedures and regulations set by the bank as well as rules and regulations prescribed by regulatory bodies; • To ensure that internal control is functioning as planned; • To safeguard the assets of the Bank; • 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); • To conduct special audit on auditable units identified as high risk. • 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. • 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.

Name of Committee	Planned Programs	Issues to be Addressed
		• To monitor compliance on exceptions noted by the BSP in its examinations. • Others ➢ To continuously review expenses (pre-audit/post-audit) of P10,000.00 and above; ➢ 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; ➢ To review the computation of last pay/separation pay of resigned/separated employees; ➢ To conduct a monthly surprise cash count of Cash Management Unit and MOB; ➢ To conduct a spot audit on Branches profiled as low risk; ➢ To conduct a daily review of TSG and Trust transactions; ➢ To review monthly reconciliation of the "Due from/to Head Office/Branches and Due from Local Bank."
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. • 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. • 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 • Employee retention

Name of Committee	Planned Programs	Issues to be Addressed
		• Attract new talents
Others (Trust)	• Continue performing the annual review of existing trust accounts • Ensure TIC's effective implementation of the revised Risk Management Framework for Trust and Investment Center • Ensure TIC's strict adoption / compliance with the revised Trust Policies and Procedures Manual.	• Comprehensive and periodic independent accounts review. • Adoption of comprehensive policies on risk management. • 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. 2. Ensure compliance with regulatory requirements. 3. Review of risk policies. 4. Strengthen the Bank's risk awareness program.	1. Strengthen the credit risk management of the Bank through a. scoring process for the varied clientele of the Bank b. establishment of credit review reporting for management to identify key risk areas as a result of the credit review process 2. Ensure that the Bank protects its capital and earnings from uneventful liquidity scenario through a. Review of policies and assumptions governing the assessment of liquidity risks 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. 3. Business Continuity Management Review 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 RWA = 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.
Operational and other risks RWA = 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 RWA = 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. 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. 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

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		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.
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. 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. 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. 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 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. 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. 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. 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. 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.

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
	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 the Bank's run off schedule, which indicates the Bank's net funding requirements in local and foreign currency.	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.
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. 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. 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. 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. 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. 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

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		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, 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. 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. 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

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
		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. 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. 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. 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 <u>83 (br-65+HO-18),</u> per 2014 audit plan or 104.81% attainment rate.
Issues[6]	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[7]	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: HEAD OFFICE • 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

6 "Issues" are compliance matters that arise from adopting different interpretations.
7 "Findings" are those with concrete basis under the company's policies and rules.

	premium payment was not secured/not available for verification; • There are no updated legal documents executed by clients (i.e., latest Credit/Line Agreement, Deed of Assignment, Bills Purchase Agreement, etc.); Collateral documents, such as TCTs/CCTs contained uncancelled encumbrances/ annotations, such as, subject to Sec. 4 Rule • 74, Sec. 7 RA 26 on reconstitution of title, notice of adverse claim/ lis pendens/levy on attachment; • 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); • 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; • 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 • 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; • No latest Credit Facility Letter was prepared by the Account Officer as notice of loan approval; • No latest annual appraisal report on mortgaged collateral conducted to determine its latest MVs/LVs; **BRANCHES** • 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. • Incomplete account opening documentary requirements/documentary deficiencies noted on individual and corporate accounts./Acct opening documents not presented for audit verification. • 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. • Late opening and closing of vault door • Exceptions on account opening of clients classified as "High Risk Accounts" (e.g. Walk-in clients) • 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. • Case-to-case BP Accommodation/BP Availments in excess of line/Availments against expired LAM without approval from authorized approving officers. • CCTV camera has no playback mode or can only retrieve 2 weeks recording of the branch's past activities. • Reversal/Waiver/Uncollected ARCC/ARCM/ MBP charges without

	supporting Head Office approval. • Several expense not supported by written approval from HO approving body. • Improper booking of Forex Transaction • Incomplete information noted on signature cards/AIS or CARA of the following individual and corporate accounts (AIS/SSC not properly filled up) • 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

Policies & Procedures	Implementation
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
<u>Internal Auditors</u> 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.
<u>External Auditor</u> External Auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee through the Board of Directors. 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. 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). The Bank recognizes their important roles to its business and in return its obligations to them. It is the policy of the Bank to protect the rights and interests of its stakeholders. 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. <u>Customers' Welfare</u> 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. 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. 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	

	Policy	Activities
	to attain growth to be able to expand its branch network and improve its information technology and serve its customers wherever they are. 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. 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). 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.	
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. 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.	

	Policy	Activities
	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. 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	Tellers, CSAs

Training Program/Seminar	Program/Seminar Objectives	Target Participants
	knowledge and skill in identifying counterfeit bills and coins	
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
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 Stockholder 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) 574 EDSA Caloocan City Stockholder	108,035,282	25.17%	The record owner is the beneficial owner of the shares indicated
Francis T. Lee Chairman of the Board 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 $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

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. 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	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.

Measures Adopted	Communication Procedure
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

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 Peter N. Yap Rolando R. Avante Honorio O. Reyes-Lao Jeffrey S. Yao Roberto A. Atendido Leticia M. Yao Amador T. Vallejos, Jr. Paterno H. Dizon Benjamin R. Sta.Catalina, Jr. Laurence R. Rapanut Amelita H. Carrillo Ma. Consorcia G. Lagunzad Felipe V. Friginal 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.
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 2. Disclosure via media using newspaper and public announcements thru its branches 3. Posting of vital announcement to the branch and head office perimeter areas 4. If needed, radio and tv announcements 5. Announcements by individual mail , when needed
(4) Investors Relations Officer	• Current – President Rolando R. Avante-363-33-33/FAX 363-21-29 • 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,	Philippine Red Cross (PRC) Caloocan

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.	
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. 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. 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. 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. 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. 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. 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. The entire community enjoyed the party especially the kids who received loot bags containing candies, toys and school kit for them to bring home. 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**	
		Rating	Description
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.	Five (5) - highest	Leading practice or principle is adopted in the Manual and full compliance with the same has been made
Board Committees		Four (4)	Leading practice or principle is adopted in the Manual and compliance has been made but with minor deviation(s) or incompleteness.
Individual Directors		Two (2) to Three (3)	Leading practice or principle is adopted in the Manual and compliance has been made but with major deviation(s) or incompleteness.
CEO/President		One (1) - lowest	Leading practice or principle is adopted in the Manual but compliance has not yet been made.

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. 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. 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_________________, 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 ________ day of __________________**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

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Book No. _______________
Series of 2015

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NOTARY PUBLIC

ATTY. NIÑO CHRISTOPHER R. PURA
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

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