



Philippine National Bank - Tokyo Branch

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September 30, 2016

To Our Valued Clients,

Outline of the Bank's Business Activities in Japan

1. Branches

(1) Profile of Philippine National Bank, Branch Offices in Japan (“the Bank”)

A. Philippine National Bank Tokyo Branch

Julius T. Rifareal, Chief Representative and Managing Director

Address: MITA43MT Bldg 1F, 3-13-16 Mita, Minato-ku, Tokyo

B. Philippine National Bank Nagoya Sub-Branch

Representative: Patricia Kato Tambuyat, Manager

Address: Nishiki 324 Bldg 7F 3-24-24 Nishiki, Naka-ku, Nagoya, Aichi

(2) Business Profile of Philippine National Bank in Japan

A. History

- 1) September 1992 Opening of Tokyo Representative Office
- 2) June 3, 1996 Opening of Tokyo Branch (approved on April 30, 1996)
- 3) May 19, 2003 Opening of Nagoya Sub-Branch
- 4) For other details, please refer to Appendix 1 “Branch Profile” and Appendix 2, “Head Office Profile”

B. Outline of Business

One of the Bank's core businesses in Tokyo is overseas remittance services, especially for Filipino residents in Japan who are remitting money to the Philippines for family support. We also provide services such as deposits (in JPY and USD), assistance service for opening of Philippine based account in domestic Filipino branches and loan for purchasing real estate in the Philippines. Please refer to Appendix 1 “Business Outline” for further details.

Nagoya Sub-Branch offers remittance services and assistance services for opening of Philippine based account in domestic branches only.

C. Business Results

a) Statement of Condition

According to the statistics announced by local Immigrations Office, Filipino population in Japan has remained high, around 250 thousands as of December 31, 2015. Demand for the remittance service to the Philippines is increasing year after year, except for 2005. Tokyo branch and Nagoya sub-branch have achieved favorable business results with growing number of remittance and amount. There are strong needs for homeward remittance in principle and revenue for local branches grew steadily except for that in 2005. However, in April 2010, remittance business has been released to non-bank companies such as funds

transfer service providers as a result of the change in the local regulations, the transaction volume both in numbers and in amounts at the Bank has significantly been impacted since the second half of 2012.

b) Balance Sheet/Profit and Loss Statement

In addition to Appendix 1 and 2, attached hereto, please refer to “Balance Sheet” and “Profit and Loss Statement” (Appendix 3 and 4).

(3) Challenges and Issues in Management

A. Management Policy

As stated in Appendix 1 “Branch Profile”, the Bank’s core business resides in providing high quality remittance services bound for the Philippines to Filipino residents in Japan. Without changing this basic policy, the Bank concentrates its available resources into retail banking business and the Bank is making every effort to improve its service quality for clients and protect the interest of them.

With regards to remittance services to China started in 2009, the number of both remitter registration and actual number of remittances has steadily increased mainly among technical interns and trainees from China. China occupies the largest share (29.24%; data from Immigration Office) of foreign residents by nationalities/areas. Further, technical interns and trainees form a major part of total Chinese residents. The bank has kept improving service quality including services easier to use for those clients and intends to increase the transaction volume.

B. Issues to be solved in Business Management

a) Risks, Internal Control & Compliance

Considering that one of the Bank’s main businesses is overseas remittance services, the Bank is aware that the most important issues to be addressed are operational risk and regulatory compliance. The Bank believes that establishing more solid internal control system and corporate governance can solve these issues and continues its efforts.

Moreover, the Bank has established internal policies, guidelines and regulations in accordance with the “Guidelines for Preventing Damage for Corporations from Anti-Social Forces (Kigyo ga Hanshakai-teki Seiryoku niyoru Higai wo Boshi surutameno Shishin ni tsuite)” issued by Ministerial Committee for Crime Prevention (“Hanzai Taisaku Kakuryo Kaigi Kanjikai Moushiawase”) and Action Charter of Japanese Bankers Association in order to have no relationships with Anti-Social Forces (ASFs) by making efforts to place adequate control in place to improve customer convenience and to strengthen customer protection such as having revised Terms & Conditions for Deposit Account, etc.

b) Personal Data Protection Act

With regard to Personal Data Protection Act that came into effective on April 1, 2005, as the Bank mentioned in our previous notice, it has established Privacy Policy and internal control rules accordingly. We have built an adequate internal control in order to protect customers’ information and prevent such information from leaking to any external parties. Revision to the Act was implemented in September 2015. Please do not hesitate to contact us if you have any inquiries concerning your personal data registered with us.

c) Act on Prevention of Transfer of Criminal Proceeds

Money laundering is one of the utmost agenda for almost all the countries in the world. Japanese government also implemented Act on Prevention of Transfer of Criminal Proceeds on March 31, 2005. As announced publicly by the government, the Act is revised again as from October 2016 and the Bank is making efforts to implement stricter control over confirmation of client's identification.

C. Others

a) Application of Deposit Insurance

Neither the deposit insurance system of Japan nor that of the Philippines is applied for deposits placed with us.

b) Designed Dispute Resolution Institution

Designed Dispute Resolution Institution contracted with us is Japanese Bankers Association.

Contact Point: Japanese Bankers Association, Customer Relations Center
Phone Number: 0570-017109 or 03-5252-3772

2. Head Office

(1) History of Philippine National Bank (the "Bank")

The Bank was established on July 22, 1916 as a government-owned bank. After the Independence of the Philippines after the WWII and until a new and separate Central Bank of the Philippines was established in 1949, the Bank had a concurrent function as the central bank for the government. The current central bank of the country, Bank Sentral ng Pilipinas (BSP), was newly established in 1993 under new Central Bank Act. After the Independence of the Philippines, the Bank has kept developing as a national bank in a strong collaboration with the government. The privatization started in 1989, and the Bank was fully privatized in July, 2007, to date.

On April 30, 2008, the Bank announced a merger plan with Allied Banking Corporation (ABC) which was established in 1977. On February 9, 2013, the Bank and ABC were fully completed their merger under the name of Philippine National Bank. Please refer to Appendix 2. "Head Office Profile" for more detailed information.

(2) Offices (as of the end of March, 2016)

| | |
|----------|-----|
| Domestic | 669 |
| Overseas | 70 |

(3) Major shareholders

As of March 31, 2016, the number of shareholders is 29,948, and the total number of shares issued and outstanding is 1,249,139,678. Of those, the top six major shareholders having more than 5% of total number of shares are:

| | |
|---|-------|
| 1) PCD Nominee Corporation (Non-Filipino) | 9.36% |
| 2) Key Landmark Investments, Ltd. | 8.73% |
| 3) PCD Nominee Corporation (Filipino) | 8.00% |
| 4) Solar Holdings Corporation | 5.38% |
| 5) Caravan Holdings Corporation | 5.38% |
| 6) True Success Profits Ltd. | 5.38% |

(4) Business Outline

(In Million pesos)

| | 15/12 | 14/12 | 13/12 | 12/12 | 11/12 |
|--------------------|---------|---------|---------|---------|---------|
| Total Assets | 679,688 | 625,446 | 618,066 | 331,007 | 316,284 |
| Deposits | 485,973 | 447,644 | 462,365 | 240,854 | 237,534 |
| Loans | 365,725 | 316,253 | 274,276 | 144,708 | 126,249 |
| Net Earnings | 6,311 | 5,495 | 5,222 | 5,028 | 3,873 |
| Earnings Per Share | P4.89 | P4.60 | P4.88 | P7.02 | P5.83 |

(5) Condition of Non-Performing Assets

Stagnation of Asian economies triggered by Asian currency crisis in the latter half of 1990s had a significant influence on economy of the Philippines, and caused various economic problems such as bankruptcies of major companies. Under such circumstances, non-performing loan increased and the Bank had to reported large amount of cost for provisioning and/or write-offs. As a result, the Bank started implementation of a re-vitalization plan led by the government. The plan included an injection of public money, and drastic changes were made including reshuffle of the management.

In June 2007, the Bank repaid in full the public money from the Philippine Deposit Insurance Corporation four years ahead of the original plan, with its successful exit from the government's led Rehabilitation Program under the oversight by BSP. The Bank subsequently achieved full independence from government support when the Bank completed a successful follow-on Equity Offering owned by the government through Philippine Deposit Insurance Corporation in July 2007.

As a result of the merger with ABC, the non-performing loan ratio as of the end of year 2015 decreased to 2.61% from 3.42 % previous year.

Julius T. Rifareal
Chief Representative and Managing Director
Philippine National Bank, Tokyo Branch

[Branch Profile]

(As of March 31, 2016)

| | | | | |
|---|---|--------|--------|--------|
| Name | Philippine National Bank – PNB | | | |
| Branch Name | Tokyo Branch and Nagoya Sub-Branch | | | |
| Address | MITA43MT Bldg 1F, 3-13-16 Mita, Minato-ku, Tokyo | | | |
| Representative | Yoji Sakaguchi | | | |
| Start-up Date | June 3, 1996 (Tokyo Branch / Approval received on April 30, 1996) May 19, 2003 (Nagoya Sub-Branch) | | | |
| Business Outline | <p>1) Core Businesses: Remittance, Loans, Deposits</p> <p>2) Main Customers: Individuals Filipino residents and Filipino spouses living in Japan. The Bank also focuses on developing new corporate clients including trading companies, travel agencies, IT companies, language schools and real estate agencies.</p> <p>3) Business: Core business is to provide overseas remittance services for Filipino residents in Japan who are remitting money to the Philippines for family support purposes.</p> <p>4) Achievement and Revenue Base: The number of remittance transactions has grown steadily and business has been successfully keeping good revenue base since the opening of branches in Japan though there was a small decrease in 2005. The Bank's business had been a favorable trend in principle, and the revenue base had been stable. However, since April 2010, when non-bank money-transfer services providers have been approved to enter into overseas remittance business, the number of remittances and amount handled by the Bank has significantly been affected since the second half of 2012.</p> <p>5) Features: The Bank specializes in retail services such as overseas remittance, deposits and loans for Filipino residents in Japan.</p> | | | |
| Major Figures (in Million yen) (on consolidated basis, respective figures of branches are shown below) | | FY2013 | FY2014 | FY2015 |
| | Total Assets | 2,824 | 3,905 | 23,124 |
| | Loans | 291 | 466 | 19,776 |
| | Deposits | 235 | 294 | 314 |
| | Net Operating Profit | 133 | 87 | 92 |
| | Profit for Current Term | 79 | 46 | 58 |
| | Number of Employees | 54 | 56 | 54 |
| Licenses and Permissions | <p>1) Tokyo branch received a full banking license (April 30, 1996).</p> <p>2) Obtained an approval to open a current account with BOJ (May 20, 1996)</p> <p>3) Tokyo branch received a foreign exchange license (June 13, 1996).</p> <p>4) Obtained an approval to open an offshore account (November 27, 1996)</p> <p>5) Obtained an approval to open Nagoya Sub- Branch (April 24, 2003)</p> | | | |
| Other group companies in Japan | N/A | | | |

Major Figures of Tokyo Branch and Nagoya Sub- Branch (as of the end of March 2016)

(in JPY Million)

| | Tokyo | Nagoya | Total |
|-------------------------|--------|--------|--------|
| Total Assets | 23,053 | 71 | 23,124 |
| Loans | 19,776 | 0 | 19,776 |
| Deposits | 314 | 0 | 314 |
| Net Operating Profit | 65 | 27 | 92 |
| Profit for current term | 40 | 18 | 58 |
| Number of Employees | 43 | 11 | 54 |

[Business Outline]

| Services | Content |
|------------|---|
| Remittance | <ol style="list-style-type: none"> 1) Remittance services to the Philippines for Filipino residents in Japan. 2) Remittance services for Japanese corporate clients for the settlement of import of goods and services from the Philippines 3) Remittances to the Philippine Leisure Retirement Authorities (PRA) for Japanese retirees to obtain permanent retirement residence visas <p>In addition to existing remittance methods such as remittance over the counter, remittance by cash registered mail (Genkin Kakitome), remittance by funds transfer through Mizuho Bank, in which the Bank provides “Virtual Access” which utilizes system of Mizuho Bank. The similar scheme was arranged as “Postal Link” using Postal Link Card provided by Japan Post Bank. Remittances by these channels have been increasing.</p> |
| Deposits | <ol style="list-style-type: none"> 1) Yen and Dollar Savings 2) Act as liaison for Filipino residents in Japan to open new accounts at domestic branches in the Philippines in connection with their remittance. |
| Loans | <ol style="list-style-type: none"> 1) The Bank provides Yen-denominated housing loan service for purchasing real estates in the Philippines to Filipino workers in Japan. 2) The Bank also provide the housing loan facilities to local Japanese who wants to purchase real estate in the Philippines by taking real estates in the Philippines as collateral and payments from his/her income earned in Japan. It is note that the purchase of real estate by non-Filipino personnel is limited to unit of condominium or apartment houses. |

[Head Office Profile]

| | | |
|---|---|---|
| Address | PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City 1300, the Philippines | |
| Representative | Reynaldo A. Maclang, President and CEO | |
| Profile <u>Moody's</u> * Long-term Deposit Rating Rating In Home Currency: Ba2 Rating In Foreign Currency: Ba2 * Short-term Deposit Rating Rating In Home Currency: NP Rating In Foreign Currency: NP <u>S&P</u> Issuer Rating * Long-term Rating in Home Currency: B+ * Long-term Rating in Foreign Currency: B+ * Short-term Rating in Home Currency: B * Short-term Rating in Foreign Currency: B | <ol style="list-style-type: none"> 1) The Bank was established on July 22, 1916 as a government-owned bank. After the Independence, it had kept a concurrent function as a central bank until the establishment of Central Bank. 2) After the establishment of the Central Bank in 1949, the Bank operated as the largest commercial bank and started universal banking operation services. The Bank has been a state depository bank since its establishment. 3) Under the government initiative to privatize government-owned companies, privatization of the Bank was promoted by listing in the Manila Securities Exchange in 1989 and gradually releasing the shares owned by the government. Sell-off of government-owned shares and public offer were done in July 2007. As a result, the Bank was fully privatized. 4) On February 9, 2013, the Bank and ABC were fully merged by way of a share for share exchange and the surviving entity is the Bank. 5) Businesses: As a universal bank, the Bank deals with wide range of businesses including deposits, loans, foreign exchange, trust services, securities and investment trust. 6) Number of Offices: Domestic (669) Overseas (70) (as of March 31, 2016) 7) Overseas Business: The main business is remittance service for overseas Filipino residents remitting to the Philippines. | |
| Total Assets | 650,900 Million Pesos (as of December 31, 2015) 1,670,259 Million Yen (TTM as of December 31, 2015 = 0.3897 Pesos/Yen) | |
| Equity Capital | (Tier1) 46,448 Million Pesos 119,189 Million Yen | (Tier1+Tier2) 88,057 Million Pesos 225,961 Million Yen |
| Capital Adequacy Ratio | (Tier1) 11.2% | (Tier1+Tier2) 19.2% |

Balance Sheet (as of March 31, 2016)

Appendix 3

(In million Yen)

| Subject | Amount | Subject | Amount |
|---|--------|--|---------------|
| Cash and due from banks | 2,126 | <u>Deposits</u> | <u>314</u> |
| Call loans and bill bought | | <u>Negotiable certificate of deposit</u> | |
| Receivables under resale agreements | | <u>Call money and bill sold</u> | |
| Guarantee deposits paid under securities borrowing transactions | | <u>Payables under repurchase agreements</u> | |
| Commercial paper purchased | | <u>Guarantee deposits received under securities lending transactions</u> | |
| Other debt purchased | | <u>Commercial paper</u> | |
| Trading account securities | | <u>Borrowed money</u> | <u>1,127</u> |
| Money held in trust | | <u>Foreign exchange liabilities</u> | |
| Securities | | <u>Other liabilities</u> | <u>35</u> |
| Loans and bills discounted | 19,776 | <u>Reserve for bonus payments</u> | <u>10</u> |
| Foreign exchange assets | | <u>Reserve for employee retirement benefits</u> | <u>43</u> |
| Other assets | 48 | <u>Reserve under special law</u> | |
| Tangible fixed assets | 22 | <u>Deferred tax liabilities</u> | |
| Intangible fixed assets | 0 | <u>Acceptances and guarantees</u> | |
| Deferred tax assets | 18 | <u>Contingent Liabilities</u> | |
| Customers liabilities for acceptances and guarantees | | <u>Due to interoffice</u> | <u>19,955</u> |
| Reserve for possible losses on loans | (4) | | |
| Due from interoffice | 1,138 | <u>Sub-total</u> | <u>21,484</u> |
| | | <u>Brought In Capital</u> | <u>1,500</u> |
| | | <u>Earned surplus carried forward</u> | <u>140</u> |
| | | <u>Sub-total</u> | <u>1,640</u> |
| Total assets | 23,124 | <u>Total liabilities</u> | <u>23,124</u> |

Notes for Balance Sheet:

1. Depreciation of Real Estate and Movable Property is made with the following method:
Movable Property: The Bank employs straight-line method and the applicable rates are in accordance with the standard established by local tax authority.
Real Estate: None is owned by the Bank.
2. Exchange rate (Telegraphic Transfer Middle: TTM) is applied as standard to when the Bank converts foreign currency denominated assets to local currency (Japanese Yen).
3. As for Allowance for Doubtful Accounts is calculated in accordance operating procedure manual of the Bank by estimating the rate of collectability of each doubtful account. This is applicable only to housing loans.
For normal assets, 2.5/1000 general provision for doubtful accounts is calculated and reported to the Balance Sheet, while accounts classified other than normal, provision rates stipulated in the Bank manual are applied.
Among all the loan assets, the Bank has JPY3 million with past-due more than 3 months and JPY14 million with revised lending conditions. There is no asset classified as Doubtful.
4. Allowance for retirement is calculated in accordance with the terms of Employment Rule of the Bank—it is 0.5 month for 1 service year.
5. Accumulated amount of depreciation for tangible fixed asset is JPY19 million. The Bank including Nagoya Sub-Branch has been using leased assets and assets reported to the Balance Sheet is relatively small.
6. There is no credit extension to and borrowing from the Chief Representative of Japan branches.
7. There is no outstanding obligation for damage/loss compensation.

Profit and Loss Statement

From April 1, 2015
To March 31, 2016

(in Million Yen)

| Subject | Amount |
|--|----------------|
| Ordinary income | <u>1,381</u> |
| Interest income | <u>787</u> |
| (Interest on loans and bills discounted) | <u>(776)</u> |
| (Interest and dividends on securities) | <u>()</u> |
| Fee and commission income | 291 |
| Other operating income | 296 |
| Other ordinary income | 7 |
| Ordinary expenses | <u>1,289</u> |
| Interest expenses | <u>713</u> |
| (Interest on deposits) | <u>(0)</u> |
| Fee and commission expenses | |
| Other operating expenses | |
| General and administrative expenses | <u>576</u> |
| Other Current expenses | <u>0</u> |
| Ordinary profits | <u>92</u> |
| Extraordinary gains | |
| Extraordinary losses | |
| Income before income tax and minority interests | <u>92</u> |
| Income taxes | <u>33</u> |
| Adjusted corporate tax | <u>1</u> |
| Net profit (Net loss) | <u>58</u> |
| Net earned surplus forwarded Due to head office | <u>82</u> |
| Net earned surplus | <u>140</u> |

Notes to Profit and Loss Statement:

1. Cost and/or Expenses subsidized by the Head Office

(1) Subsidy from the Head Office (Salary of Expatriates, etc) None

(2) Non-direct expense allocation amount in JPY

| | |
|---------------|---------------|
| 2006 (FY H18) | 80,216,781.- |
| 2007 (FY H19) | 99,735,311.- |
| 2008 (FY H20) | 155,425,151.- |
| 2009 (FY H21) | 137,267,761.- |
| 2010 (FY H22) | 142,812,450.- |
| 2011 (FY H23) | 131,095,331.- |
| 2012 (FY H24) | 130,024,522.- |
| 2013 (FY H25) | 150,866,073.- |
| 2014 (FY H26) | 142,391,387.- |
| 2015 (FY H27) | 105,675,116.- |

2. From 2011, Japan branches started monthly payment to the Head Office as the cost and expense of system (Integrated Remittance System: IRS) usage which is calculated based on the number of transactions. Expenses are as follows.

| | |
|-------------------|--------------|
| Operation Expense | 16,093,742.- |
| License Fee | 16,093,742.- |
| Total | 32,187,484.- |