

## NOTES TO FINANCIAL STATEMENTS

(AMOUNTS IN THOUSAND PESOS EXCEPT WHEN OTHERWISE INDICATED)

Category	2014		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
<b>Securities transactions:</b>			
Purchases	₱2,022,150		Outright purchase of securities
Sales	535,877		Outright sale of securities
Trading gains	14,754		Gain from sale of investment securities
Loan releases	2,448,000		Loan drawdowns
Loan collections	1,473,000		Settlement of loans and interest
Net withdrawals	754,538		Net withdrawals during the period
<b>Affiliates</b>			
Receivables from customers		₱12,292,943	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.75% to 10.00% with maturities terms ranging from 1 year to 15 years and payment terms ranging from monthly payments to quarterly payments
Loan commitments		997,894	Loan commitments
Due from other banks		385,879	With annual fixed interest rates ranging from 0.01% to 4.50% including time deposits with maturity terms of up to 90 days
Accrued interest receivable		56,546	Interest accrual on receivables from customers
Rental deposits		37,181	Advance rentals and security deposits received for three months and two years
Deposit liabilities		6,089,810	With annual rates ranging from 0.02% to 1.73% including time deposits with maturity terms ranging from 30 days to 365 days
Other liabilities		36,978	Advance lease payments
Interest income	448,141		Interest income on receivables from customers and due from other banks, including income earned from partial redemption of VMC convertible notes
Interest expense	23,759		Interest expense on deposit liabilities
Rental income	30,942		Monthly rental income on operating lease with term of 10 years
Rental expense	9,653		Monthly rental payments with terms ranging from 24 to 240 months
Fees and commission expense	9		Expense on professional fees on service agreement
Net insurance premiums	170		Income on insurance premiums collected
Net insurance benefits and claims	4,024		Claims expense, comprehensive insurance, service and referral fees
<b>Securities transactions:</b>			
Purchases	91,501		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	2		Gain from sale of investment securities
Loan releases	14,772,677		Loan drawdowns
Loan collections	7,107,688		Settlement of loans and interest
Net deposits	1,163,388		Net deposits during the period
<b>Key Management Personnel</b>			
Loans to officers		16,073	Housing loans to senior officers; Secured and unimpaired
Loan releases	3,140		Loan drawdowns
Loan collections	5,621		Settlement of loans and interest

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2015 and 2014 in relation to amounts due from related parties.

### Outsourcing Agreement between the Parent Company and PNB GRF

The 'Pangarap Loans', which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. On March 19, 2004, the Parent Company and PNB

GRF entered into an agreement wherein the Parent Company agreed to undertake all impaired Pangarap Loans of PNB GRF. PNB GRF transfers the impaired loans at their carrying values on a quarterly basis or when aggregate carrying value of the impaired loans amounts to HK\$2.0 million, whichever comes earlier. Subject to BOD approval, PNB GRF regularly declares special dividends (recognized as a liability). These special dividends are offset against the intercompany receivables from the Parent Company.

In June 2013, the Parent Company and PNB GRF agreed to amend the settlement procedure on defaulted Pangarap Loans. Under the new settlement procedure, the Parent Company, in which the pledged deposits of the defaulted Pangarap Loans are placed with, will remit the corresponding defaulted amounts (including accrued interests, surcharges and other related charges) from the pledged deposits of the defaulted customers to PNB GRF. The remitted amounts are being offset against the intercompany receivables from the Parent Company.

### Financial Assets at FVPL traded through PNB Securities

As of December 31, 2015 and 2014, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with fair value of ₱199.7 million and ₱210.5 million, respectively. The Parent Company recognized trading gains amounting to ₱7.2 million in 2015, ₱19.5 million in 2014 and ₱35.1 million in 2013 from the trading transactions facilitated by PNB Securities.

### Investment in OHBVI

The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

### VMC Convertible Notes and Common Shares

As of December 31, 2013, the Parent Company holds convertible notes with face amount of ₱353.4 million, recorded under 'Unquoted debt securities' and 161,978,996 common shares, recorded under 'AFS investments', issued by VMC, an affiliate of the Group. Each of the investment has a carrying value of ₱1.0 (one peso). In March 2014, VMC redeemed a portion of the convertible notes for a total price of ₱330.3 million, the same amount of gain was recorded under 'Interest income' in the statement of income of the Parent Company. In April 2014, the Parent Company sold the remaining convertible notes to LTG at ₱3.5 for every ₱1.0 convertible note. The Parent Company recognized a gain on sale of convertible notes amounting to ₱608.4 million, booked under 'Miscellaneous income' in the statement of income of the Parent Company (Note 28). Also in April 2014, the Parent Company sold its investment in common shares of VMC to LTG, at current market price of ₱4.5 per share resulting in a gain of ₱735.4 million recorded under 'Trading and investment securities gains - net' in the statement of income. The sale of VMC shares to LTG was facilitated by PNB Securities.

### Compensation of Key Management Personnel

The compensation of the key management personnel follows:

	Consolidated			Parent Company		
	2015	2014	2013	2015	2014	2013
Short-term employee benefits (Note 20)	₱665,812	₱524,193	₱366,873	₱589,199	₱459,759	₱316,922
Post-employment benefits	53,167	47,844	47,381	51,365	47,844	47,381
	₱718,979	₱572,037	₱414,254	₱640,564	₱507,603	₱364,303