

## MESSAGE FROM THE BOARD AUDIT AND COMPLIANCE COMMITTEE CHAIRMAN

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2015)						
Nature of Item	Closing Rate USD/PHP:					47.118
	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
1	2	3	4=1+2+3	5		
A.10 Sum of net long positions					622.1	
A.11 Sum of net short positions					-59.7	
B. Overall net open positions					622.1	
C. Risk Weight					8%	
D. Total Capital Charge for Foreign Exchange Exposures (B. times C.)					49.8	
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)					62.2	
F. Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)					622.1	
G. Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)					-	
H. Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)					622.1	

Note: Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.

### Operational Risk – Weighted Assets

The Bank adopts the Basic Indicator Approach in quantifying the risk weighted asset for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(amounts in P0.000 Million) As of 12/31/2015	Gross Income	Capital Requirement (15% x Gross Income)
2012	23,033.73	3,455.06
2013	18,172.06	2,725.81
2014	22,061.31	3,309.20
Average for 3 years		3,163.36
Adjusted Capital Charge	Ave x 125%	3,954.19
Total Operational Risk Weighted Asset (ORWA)		39,541.94



DEOGRACIAS N. VISTAN  
DIRECTOR

### BOARD AUDIT AND COMPLIANCE

The Board Audit and Compliance Committee (Committee) of the Philippine National Bank (PNB) is a standing Committee of the Board of Directors. The purpose of the Committee is to:

- Assist the Board of Directors in the performance of its oversight responsibility relating to financial reporting process, systems of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations;
- Provide oversight functions over internal and external auditors and ensure that the internal and external auditors act independently from each other;
- Provide oversight over compliance functions and/or oversee the compliance program;
- Review the quarterly, semi-annual, annual and any periodic financial statement signed by the CEO and CFO prior to submission to the Board, focusing particularly on: a) Any change/s in accounting policies and practices; b) Major judgmental areas; c) Significant adjustments resulting from the audit; d) Going concern assumptions; e) Compliance with accounting standards; and f) Compliance with tax, legal, regulatory and stock exchange requirements;

- Monitor the annual independent audit of PNB's financial statements, the engagement of the External Auditors and the evaluation of the External Auditor's qualifications, independence and performance;
- Monitor the compliance by PNB with legal and regulatory requirements, including PNB's disclosure controls and procedures

The Committee operates under a written Charter adopted by the Board of Directors. The Charter empowers the Committee to:

- Have explicit authority to investigate any matter within its terms and reference, full access to and cooperation by Management and full discretion to invite any Director or Executive Officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.
- Have the sole authority to select, evaluate, appoint, and replace the External Auditors (subject to stockholder ratification) and shall approve in advance all audit engagement fees and terms and all audit related, and tax compliance engagements with the External Auditors. It may recommend to the Board of Directors to grant the President authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation/approval of the Committee members.
- Have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting, or other consultants to advise the Committee. The Bank shall provide funding, as determined by the Committee, for payment of compensation to the External Auditors and to any advisors employed by the Board Audit and Compliance Committee.

- Form and delegate authority to subcommittees, comprised of one or more members of the Committee, as necessary or appropriate. Each subcommittee shall have the full power and authority of the Committee.
- Ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.
- Establish and maintain mechanisms by which officers and staff may, 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. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.

The Committee shall review and assess the adequacy of its Charter annually and recommend any proposed changes for approval of the Board of Directors. The latest revision of the Committee Charter was in November 2015.

The Committee is composed of five (5) members consisting of three (3) Non-Executive Directors (NED) and two (2) Independent Directors (ID). The Committee Chairman is an Independent Director. The Committee members are highly qualified business professionals with excellent

MESSAGE FROM THE BOARD AND COMPLIANCE COMMITTEE CHAIRMAN

educational credentials. In December 2015, the Committee members attended a seminar on Corporate Governance as part of continuing training. The Committee members collectively hold a broad range of expertise and related banking experiences that provide value to the strengthening and upholding good governance practices in the Bank.

Activities for the calendar year 2015

The Committee held 17 meetings during the year. Accomplishments and action plans are monitored to ensure the full discharge of all its functions. For the calendar year 2015, the Committee:

- Reviewed and discussed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Bank, including management's significant judgments and estimates. While the Committee has the responsibilities and powers as set forth in this Charter, it is not the duty of the Committee to determine that PNB's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of Management and the External Auditors;
- Assessed the independence and effectiveness of the external auditors, tax preparers and consulting companies, and endorsed them to the Board of Directors;
- Reviewed the scope of work and fees of the external auditors, tax preparers and consulting companies, assessed their independence and effectiveness, and endorsed them to the Board of Directors;
- Reviewed the performance of the Internal Audit Group and Global Compliance Group. In the last quarter of 2015, the Internal Audit Group was subjected to an internal quality assessment. An independent validation of the internal quality assessment was performed by Sycip Gorres and Velayo & Co. (SGV) and confirmed that the Internal Audit activity "Generally Conforms" with the international Standards, the highest rating to be given to an internal audit activity.
- Reviewed and approved the annual plans and programs of the Internal Audit Group and Global Compliance Group for 2015, and the audit plan of the external auditors for the consolidated financial statements of the Bank for the period ending December 31, 2015;
- Reviewed the results of audits and recommendations of the internal and external auditors and their assessment of the Company's internal controls and the overall quality of the financial reporting process;
- Reviewed the monthly reports of the Internal Audit Group and Global Compliance Group, ensuring that management takes timely and appropriate corrective actions, including those involving internal control and compliance issues;
- Reviewed the enhancements on anti-money laundering controls and processes. Approved major projects launched by the Internal Audit Group which automated the Internal Audit Group's end-to-end processes, promoting greater effectiveness and productivity.

Internal Audit Group and Global Compliance Group are focused to support the Bank's cybercrime prevention and cybersecurity preparedness programs, through attendance in several cybercrime prevention trainings and seminars.

- Performed self-assessments and reviewed the overall effectiveness of the Committee as against its Charter, following the guidelines set by the Securities and Exchange Commission;
- Enhanced the Committee Charter by adopting leading good governance practices.
- Reviewed and approved the Revised Internal Audit Group Manual, which covered enhancements in the Internal Audit Group and the Committee Charters to align with regulatory requirements, Risk Assessment Methodology, and significant enhancements on various audit procedures.
- Reviewed significant updates in the Compliance Programs of PNB Parent Bank, its Subsidiaries and Affiliates including foreign branches.

Based on the stated responsibilities, authority and activities, the Board Audit and Compliance Committee recommended to the Board of Directors the approval of the Audited Consolidated Financial Statement of the Bank for the year ended December 31, 2015 and their consequent filing with the Securities and Exchange Commission and other regulatory bodies.

Based on the activities performed by the Internal Audit Group, the Chief Audit Executive rendered a reasonable assurance to the Committee, the Board of Directors and the Senior Management that the Bank's overall risk management system, internal control systems and compliance with policies, procedures and relevant laws and regulations is Satisfactory. Furthermore, the results of the internal control review and evaluation on operations of the bank units, lending units, domestic and foreign branches and subsidiaries audited and information systems disclosed that the internal control environment of the Bank is considered effective as the units' ratings profile remained concentrated at Very Low to Low Risk. This is supported with the comprehensive compliance systems effectively implemented enterprise-wide wherein there were no material deviations noted by the Chief Compliance Officer.

The Committee is confident that under the strong governance of the Board and with the support of Senior Management to oversee the establishment, administration, and assessment of the Bank's system of risk management and control processes, Philippine National Bank internal control environment will remain effective and dynamic, hence ensures the attainment of its business objectives with reasonable assurance.



DEOGRACIAS N. VISTAN  
Board Audit and Compliance Committee Chairman

MESSAGE FROM THE BOARD IT GOVERNANCE COMMITTEE CHAIRMAN



LEONILO G. CORONEL  
DIRECTOR

BOARD IT GOVERNANCE

The Board IT Governance Committee (BITGC) was created by the Board of Directors on April 10, 2014. BITGC's mission is to assist the Board in performing its oversight functions in reviewing, approving and monitoring the IT Risk Management Framework and IT Strategic Plan of the PNB Group.

The Committee is composed of five (5) regular members of the Board of Directors. The Chairman is a Non-Executive Director appointed by the Board, while Senior Management Heads from Business and Support Groups are invited to provide management reports and clarify information on relevant IT matter.

The primary functions of the BITGC are, but not limited to, the following:

- Oversee the Enterprise IT Risk Management System
- Review and endorse for Board approval the Enterprise IT Strategic Plans of the Parent Bank, its subsidiaries and affiliates
- Evaluate and endorse for approval of the Board the IT Organizational Structure of the PNB Parent Bank and related entities
- Review and inform the Board the status of critical IT Projects in a timely manner
- Approve or endorse to the Board the required IT budget and expenses to support business plans and priorities
- Review and endorse for approval of the Board the IT policies and guidelines based on adherence to existing laws, rules and regulations, and global best practices
- Ensure that IT project proposals are consistent with the overall IT Strategic Plans
- Monitor the IT Group's performance, IT projects, and the insourcing and outsourcing activities of IT functions and services provided to related entities
- Review and monitor significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews

The BITGC conducts monthly meetings or whenever necessary to properly discharge its oversight functions.



LEONILO G. CORONEL  
Board IT Governance Committee Chairman



PNB

PROFILES OF THE BOARD OF DIRECTORS

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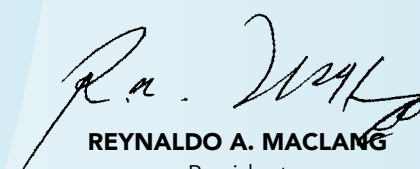
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine National Bank is responsible for the preparation and fair presentation of the consolidated and parent company financial statements as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated and parent company 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 and approves the consolidated and parent company financial statements and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has examined the consolidated and parent company financial statements of Philippine National Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

  
**FLORENCIA G. TARRIELA**  
Chairman of the Board

  
**REYNALDO A. MACLANG**  
President

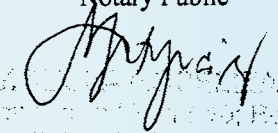
  
**NELSON C. REYES**  
Executive Vice President & Chief Financial Officer

MAR 28 2016

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of March 2016 affiants exhibiting to me their Passport Nos., as follows:

<u>Names</u>	<u>Passport No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Florencia G. Tarriela	EB6620757	October 23, 2012	DFA Manila
Reynaldo A. Maclang	EC0299319	February 14, 2014	DFA Manila
Nelson C. Reyes	EC3050873	December 20, 2014	DFA NCR South

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Notary Public  
  
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