

4) Warrants and Options Outstanding

No warrants or options on the Bank's shares of stock have been issued or given to the Directors or executive officers as a form of compensation for services rendered.

Item 7. INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co. (SGV) is the current external auditor of the Bank and its domestic subsidiaries for the calendar year 2015. Representatives of SGV are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Ms. Vicky Lee Salas is the engagement partner of the Bank for the year 2015.

The Bank intends to retain SGV & Co. as its external auditor for the year 2016. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the Stockholders during the Annual Stockholders' Meeting of the Bank.

OTHER MATTERS

Item 8. AMENDMENT OF THE BY-LAWS

The amendment of Section 4.2, Article IV of the Amended By-Laws, to change the date of the Annual Stockholders' Meeting from the last Tuesday of May to the last Tuesday of April of each year, will be presented for the approval of the stockholders at the Annual Stockholders' Meeting.

This is essential to align the schedule of the Annual Stockholders' Meeting of the Bank with the other subsidiaries of LT Group, Inc., the Bank being a subsidiary of the latter.

Item 9. ACTION WITH RESPECT TO REPORTS

The following matters will be submitted to a vote at the Annual Stockholders' Meeting:

1. Approval of the Minutes of the 2015 Annual Stockholders' Meeting held on May 26, 2015

Among others, the salient matters approved at the meeting of the stockholders in 2015 are as follows:

- a. Election of Directors
 - b. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2014 Annual Stockholders' Meeting
 - c. Appointment of External Auditor
2. Approval of the 2015 Annual Report

A copy of the 2015 Annual Report will be made available at the venue of the Annual Stockholders' Meeting.
 3. Ratification of all legal acts and proceedings of the Board of Directors and corporate officers since the 2015 Annual Stockholders' Meeting

A list of all legal acts, resolutions and proceedings taken by the Directors and corporate officers will be too voluminous to be included in this report. Most relate to regular banking transactions and credit matters which the Board of Directors, either by law or by regulations issued by the BSP, is required to act upon. These actions are subjected to the annual review of the BSP and the Bank's external auditor.

Copies of the Minutes of the Meetings of the Board of Directors may be examined by the stockholders of record as of May 2, 2016 at the Office of the Corporate Secretary during business hours.

Item 10. OTHER ACTIONS

(a) Election of Directors

Fifteen (15) directors will be elected for the year 2016.

(b) Appointment of External Auditor

The Bank intends to retain SGV as its external auditor for the year 2016. This requires the endorsement of the Board Audit and Compliance Committee with the approval of the Board of Directors and ratification by the stockholders during the Annual Stockholders' Meeting of the Bank.

SGV has the advantage of having historical knowledge of the business of the Bank and its subsidiaries and affiliates, having been the appointed external auditor of the Bank in 2015 and prior years.

Ms. Vicky B. Lee-Salas, SGV's Leader for Market Group 5 and one of the experienced audit partners in the banking industry, will be retained as audit partner-in-charge. In accordance with the amended SRC Rule 68(3)(b)(ix), there is no need at this time to change the audit partner for the Bank.

Item 11. VOTING PROCEDURES

The affirmative vote of the stockholders present in person or by proxy representing at least a majority of the stockholders present at the meeting shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Stockholders' Meeting, except for Items 6 and 8 of the Agenda, on the amendment of the Amended By-Laws and election of directors.

For Item 6, on the amendment of the Bank's Amended By-Laws, particularly Section 4.2, Article IV, to change the holding of the Annual Stockholders' Meeting from the last Tuesday of May to the last Tuesday of April of each year, the favorable vote of the stockholders representing at least majority of the outstanding capital stock of the Bank is required.

For Item 8, on election of directors, the fifteen (15) nominees garnering the highest number of votes from the stockholders present or represented by proxy shall be elected directors for the ensuing year.

The manner of voting and counting of votes will be as follows:

- a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his name on record as of the close of business hours on May 2, 2016. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before May 26, 2016 for inspection and recording, shall be honored for purposes of voting.
- b) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. Under this voting system, the stockholder has the option to (i) cast all his votes in favor of one (1) nominee, or (ii) distribute those votes under the same principle among as many nominees as he shall see fit. Only candidates duly nominated shall be voted upon by the stockholders entitled to vote or by their proxies.
- c) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and may be done by show of hands.

- PFRS 3 *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
 - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
 - PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
 - PAS 24, *Related Party Disclosures – Key Management Personnel*
- Annual Improvements to PFRSs 2011 – 2013 Cycle
 - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
 - PFRS 13, *Fair Value Measurement – Portfolio Exceptions*
 - PAS 40, *Investment Property*

C. Disagreements with Accountants

The Bank and its subsidiaries had no disagreement with its auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, there is no need at this time to change the audit partner for the Bank. Ms. Vicky B. Lee-Salas, SGV's Leader for Market Group 5 and one of the more experienced audit partners in the banking industry, was the audit partner-in-charge for the year 2015.

Item 5. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial statements have been prepared in accordance with PFRS.

Financial Condition

2015 vs. 2014

The Group's consolidated assets stood at ₱679.7 billion as of December 31, 2015, 8.7% or ₱54.3 billion higher compared to ₱625.4 billion total assets reported as of December 31, 2014. Changes (more than 5%) in assets were registered in the following accounts:

- Due from Other Banks registered an increase of ₱2.7 billion from ₱15.6 billion as of December 31, 2014. On the other hand, Due from BSP decreased by ₱24.4 billion from ₱105.8 billion as of December 31, 2014 due to lower Special Deposit Account placement in 2015. Interbank Loans Receivable also decreased by ₱1.9 billion from ₱7.7 billion as of December 31, 2014.
- Financial Assets at Fair Value Through Profit or Loss (FAFVPL) were lower at ₱4.5 billion, from ₱17.4 billion as of December 31, 2014, mainly due to reclassification of the ₱13.8 billion "Segregated Fund Assets" of PNB Life from FAFVPL to "Assets of Disposal Group Classified as Held for Sale" in line with the requirements of PFRS 5, Non-current Assets Held for Sale and Discontinued Operations. This arose following an agreement entered into between the Bank and Allianz last December 2015 for Allianz SE to acquire 51% ownership in PNB Life. PFRS 5 requires assets and liabilities of PNB Life, together with the results of operations of a disposal group, to be classified separately from continuing operations.
- Securities Held Under Agreements to Resell as of December 31, 2015 of ₱14.6 billion represents lending transactions of the Bank with the BSP.
- Available for Sale Investments and Held to Maturity Investment were higher at ₱68.3 billion and ₱23.2 billion as of December 31, 2015, respectively, from their ₱63.1 billion and ₱23.0 billion levels as of December 31, 2014, an improvement of ₱5.2 billion and ₱0.2 billion, respectively, due mainly to acquisition of various investments securities.
- Loans and Receivables reached ₱365.7 billion, posting a significant growth of 15.7% or ₱49.4